

New Issue – Book-Entry Only

In the opinion of Bond Counsel, under existing law and subject to compliance with the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series 2007 Bonds is excludable from gross income for federal income tax purposes, except for interest on any Series 2007 Bond for any period during which such Series 2007 Bond is held by a "substantial user" of the facilities financed by the Series 2007 Bonds or a "related person" within the meaning of Section 147(a) of the Code. Interest on the Series 2007 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under existing law, interest on the Series 2007 Bonds is exempt from State of North Carolina income taxes. See "TAX MATTERS" herein.

\$100,000,000
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY
SOLID WASTE DISPOSAL REVENUE BONDS
(DUKE ENERGY CAROLINAS PROJECT)

\$50,000,000 Series 2007A

\$50,000,000 Series 2007B

Dated: Date of delivery

Due: November 1, 2040

The Series 2007A Bonds (the "Series 2007A Bonds") and the Series 2007B Bonds (the "Series 2007B Bonds" and, collectively with the Series 2007A Bonds, the "Series 2007 Bonds") are being issued by the North Carolina Capital Facilities Finance Agency (the "Agency"), pursuant to separate Trust Agreements, each dated as of October 1, 2007 (the "Trust Agreements"), by and between the Agency and Deutsche Bank National Trust Company, as bond trustee (the "Bond Trustee"). The Agency will loan the proceeds of the Series 2007 Bonds to Duke Energy Carolinas, LLC (the "Borrower") pursuant to the Loan Agreements, each dated as of October 1, 2007 (the "Loan Agreements"), by and between the Agency and the Borrower. The Borrower's obligations under the Loan Agreements will be evidenced by Promissory Notes, each dated November 15, 2007 (the "Notes"), issued by the Borrower to the Agency and assigned by the Agency to Bond Trustee. The Borrower will use the proceeds of the Series 2007 Bonds to finance the acquisition, construction and installation of certain capital solid waste disposal equipment and related infrastructure (the "Projects").

The Series 2007 Bonds will bear interest during the Initial Periods set forth on the inside cover of this Official Statement at the Initial Period Rate established by the Goldman, Sachs & Co., acting in its capacity as underwriter, in accordance with the Trust Agreements. Thereafter, the Series 2007 Bonds will bear interest at an Auction Rate resulting from an Auction conducted for each Auction Period on each Auction Date in accordance with the Auction Procedures described herein, subject to certain conditions and exceptions. The Series 2007 Bonds in the ARS Rate Period are subject to conversion to and from a Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period. In the event of any such conversion, the Series 2007 Bonds will be subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to the principal amount thereof, plus accrued interest. For a description of the Interest Rate Periods, Interest Payment Dates, and certain other terms applicable to the Series 2007 Bonds, see the inside cover. This Official Statement, in general, describes the Series 2007 Bonds only while the Series 2007 Bonds are in an ARS Rate Period.

Price: 100%

Payment of the principal of and interest on the Series 2007 Bonds when due will be insured by separate financial guaranty insurance policies, one with respect to each series of the Series 2007 Bonds to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Series 2007 Bonds.

Ambac

The Series 2007 Bonds are issuable as fully registered bonds in denominations of \$25,000 and integral multiples thereof. Purchases of Series 2007 Bonds will be made in book-entry form only, and individual purchasers will not receive physical delivery of bond certificates. See Appendix F "Book Entry System."

The Series 2007 Bonds are limited obligations of the Agency payable only from amounts to be paid under the Notes and the Loan Agreements by the Borrower and other amounts held in the funds and accounts established under the Trust Agreements and pledged therefor. The Series 2007 Bonds are not secured by a pledge of the faith and credit of the State of North Carolina or of any political subdivision thereof, including the Agency, and do not create an indebtedness of the State of North Carolina or of any political subdivision thereof.

The Series 2007 Bonds are offered subject to prior sale, when, as and if issued by the Agency and received by the Underwriter, subject to the approval of their validity by Robinson, Bradshaw & Hinson, P.A., Charlotte, North Carolina, Bond Counsel. Certain legal matters will be passed upon by Sidley Austin LLP, New York, New York, counsel to the Underwriter, and by Robert T. Lucas III, Associate General Counsel to the Borrower, Charlotte, North Carolina. It is expected that the Series 2007 Bonds will be available for delivery through the facilities of DTC in New York, New York on or about November 15, 2007.

Goldman, Sachs & Co.

November 1, 2007.

NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY
SOLID WASTE DISPOSAL REVENUE BONDS
(DUKE ENERGY CAROLINAS PROJECT)

\$50,000,000 Series 2007A
CUSIP Number* 65820A AC2

\$50,000,000 Series 2007B
CUSIP Number* 65820A AD0

Auction Period

35-day

Final Maturity

November 1, 2040

Auction Period

35-day

Final Maturity

November 1, 2040

<u>Series</u>	<u>Auction Date Generally</u>	<u>Interest Payment Date Generally</u>	<u>Last Day of Initial Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
Series 2007A	Every 5 th Friday	Every 5 th Monday	December 16, 2007	December 14, 2007	December 17, 2007
Series 2007B	Every 5 th Thursday	Every 5 th Friday	December 20, 2007	December 20, 2007	December 21, 2007

Goldman, Sachs & Co. will serve as the initial Broker-Dealer for the Bonds.

Deutsche Bank Trust Company Americas will serve as the initial Auction Agent for the Bonds.

* CUSIP numbers have been assigned by an organization not affiliated with the Agency and are included solely for the convenience of the holders of the Series 2007 Bonds. The Agency is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness on the Series 2007 Bonds or as indicated above.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Agency, the Local Government Commission of North Carolina, the Borrower or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of any offer to buy any securities other than the Series 2007 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Series 2007 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale of the Series 2007 Bonds shall under the circumstances create any implication that there has been no change in the affairs of the Agency or the Borrower since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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**State of North Carolina
Department of State Treasurer**

RICHARD H. MOORE
TREASURER

*North Carolina Capital
Facilities Finance Agency*

T. VANCE HOLLOMAN
DEPUTY TREASURER

OFFICIAL STATEMENT

\$100,000,000
North Carolina Capital Facilities Finance Agency
Solid Waste Disposal Revenue Bonds
(Duke Energy Carolinas Project)

consisting of

\$50,000,000 Series 2007A

\$50,000,000 Series 2007B

INTRODUCTION

This Official Statement is provided to furnish certain information in connection with the original issuance and sale by the North Carolina Capital Facilities Finance Agency (the "Agency") of \$50,000,000 in aggregate principal amount of its North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project), Series 2007A (the "Series 2007A Bonds") and \$50,000,000 in aggregate principal amount of its North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project), Series 2007B (the "Series 2007B Bonds" and, collectively with the Series 2007A Bonds, the "Series 2007 Bonds"). The Series 2007 Bonds are being issued under the Private Capital Facilities Financing Act, Article 2 of Chapter 159D, General Statutes of North Carolina, as amended (the "Act") and separate Trust Agreements, each dated as of October 1, 2007 (the "Trust Agreements"), and each by and between the Agency and Deutsche Bank National Trust Company, as trustee (the "Bond Trustee").

Concurrently with the issuance of the Series 2007 Bonds, the Agency will enter into two Loan Agreements, one with respect to each series of the Series 2007 Bonds, each dated as of October 1, 2007 (the "Loan Agreements"), and each by and between the Agency and Duke Energy Carolinas, LLC (the "Borrower"). Pursuant to the Loan Agreements, the Agency will lend the proceeds of the Series 2007 Bonds to the Borrower for the purpose of providing funds, together with other available funds, to finance the acquisition, construction and installation of certain capital solid waste disposal equipment and related infrastructure (the "Projects"). The Borrower's obligations under the respective Loan Agreements will be evidenced by a Promissory Note, each dated the date of issuance of the Series 2007 Bonds (the "Notes"), issued by the Borrower to the Agency and assigned by the Agency to the Bond Trustee.

The Series 2007 Bonds are limited obligations of the Agency payable only from amounts to be paid under the respective Notes and the respective Loan Agreements by the Borrower and other amounts held in the funds and accounts established under the respective Trust Agreements and pledged therefor. The Series 2007 Bonds are not secured by a pledge of the faith and credit of the State of North Carolina or of any political subdivision thereof, including the Agency, and do not create an indebtedness of the State of North Carolina or of any political subdivision thereof.

Payment of the principal of and interest on each series of the Series 2007 Bonds when due will be insured by separate financial guaranty insurance policies (the "Financial Guaranty Insurance Policies") to

be issued by Ambac Assurance Corporation ("Ambac Assurance") simultaneously with the delivery of the Series 2007 Bonds.

The Borrower is a North Carolina corporation, maintaining its principal place of business in Charlotte, North Carolina. Certain information relating to the Borrower is included by specific reference to the Borrower's filings with the Securities and Exchange Commission (the "SEC") in Appendix A.

Unless otherwise defined herein, capitalized terms used in this Official Statement have the meanings ascribed to them in Appendix B under the heading "Summary of Certain Provisions of the Trust Agreements and Loan Agreements - Definitions."

THE AGENCY

General

The Agency was created by the North Carolina General Assembly as the "*North Carolina Higher Education Facilities Finance Agency*" in 1986 in order to provide a method of financing certain facilities for institutions of higher education. The North Carolina General Assembly later expanded the scope of the Act to provide financing for institutions of elementary and secondary education and then for "special purpose institutions." In connection with the latter expansion, the North Carolina General Assembly changed the name of the Agency to the "*North Carolina Capital Facilities Finance Agency*" in 2000. The Act authorizes the Agency to finance, refinance, acquire, construct, equip, provide, operate, own, repair, maintain, extend, improve, rehabilitate, renovate and furnish any one or more buildings, structures, improvements, additions, extensions, enlargements or other facilities for institutions for higher education and certain other entities. Each issue of bonds issued by the Agency is separately secured by amounts payable under a loan agreement and a note.

The Agency is governed by a Board of Directors composed of seven members. Two of the members are the State Treasurer and the State Auditor, each of whom serve *ex-officio*. The remaining members are residents of the State who do not hold public office and are appointed in the following manner: the President of the Senate on the recommendation of the President Pro Tempore appoints one director, the General Assembly on the recommendation of the Speaker of the House appoints one director and the Governor appoints three directors. The Chairman and the Vice Chairman of the Board of Directors are designated by the Governor. Dora D. Fazzini currently serves as Secretary-Treasurer of the Agency.

The Agency is contained within the Department of State Treasurer and, by agreement, the staff of the Local Government Commission of North Carolina (the "LGC") serves as staff to the Agency. The LGC is a division of the Department of State Treasurer and is composed of a nine-member board of directors chaired by the State Treasurer. Since the early 1930's, the LGC has assisted counties and cities in the areas of debt and fiscal management. In addition to bonds issued by the Agency, substantially all North Carolina local government debt must be approved by the LGC. The LGC and the Agency approved the issuance of the Series 2007 Bonds on October 2, 2007.

Membership

The present Board of Directors of the Agency consists of the following members:

NAME	TERM EXPIRES
Richard H. Moore, Chairman	<i>Ex-Officio</i>
Leslie W. Merritt, Jr.	<i>Ex-Officio</i>
Zack W. Blackmon	March 1, 2007*
David Fountain	July 31, 2009
Jeffrey A. Nelson	March 1, 2010
C. Edward Teague, III	March 1, 2009
Dennis M. Walters	March 1, 2008

* Continues to serve until a successor is appointed and qualified.

THE SERIES 2007 BONDS

General

The Series 2007 Bonds are being initially offered as "Auction Rate Securities" or "ARS" but may be converted at the option of the Borrower, subject to certain restrictions, to bonds which bear interest at different rates, including a Daily Interest Rate, Weekly Interest Rate, Short-Term Interest Rate and Long-Term Interest Rate. **This Official Statement, in general, describes the Series 2007 Bonds only while such Bonds are Auction Rate Securities.** Series 2007 Bonds to be converted to a Daily Interest Rate Period, Weekly Interest Rate Period, Short-Term Interest Period or Long-Term Interest Rate Period will be subject to mandatory tender prior to such conversion. It is currently anticipated that, should any of the Series 2007 Bonds be converted to any of such Interest Rate Periods, a remarketing memorandum or remarketing circular will be distributed describing the Series 2007 Bonds operating in the applicable Interest Rate Period.

The Series 2007 Bonds will be delivered initially only in book-entry form and, when delivered, will be registered in the name of Cede & Co. or such other name as may be requested by an authorized representative of The Depository Trust Company ("DTC"), as nominee of DTC. DTC will act as the initial Securities Depository for the Series 2007 Bonds. See Appendix F – "Book-Entry Only System." Except as described in Appendix F, Beneficial Owners (as defined in Appendix B – "Summary of the Trust Agreements and Loan Agreements") of the Series 2007 Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Series 2007 Bonds. For so long as any purchaser is the Beneficial Owner of a Series 2007 Bond, such purchaser must maintain an account with a broker or dealer who is or acts through a Direct Participant (as defined in Appendix B) to receive payment of the principal of, premium, if any, interest on, or on any Conversion

Date, the purchase price, equal to 100% of the principal amount thereof, plus accrued interest, if any (the "Tender Price") of such Series 2007 Bonds subject to conversion, on such Bonds.

Auction Rate Securities

Authorized Denominations. While bearing interest at Auction Period Rates, the Series 2007 Bonds will be issued in fully registered form without coupons in denominations of \$25,000 or any integral multiple thereof, subject to the book-entry procedures described in Appendix F hereto.

Interest. The Series 2007 Bonds will bear interest during the Initial Period beginning on the date of delivery of the Series 2007 Bonds to the Underwriter against payment therefor (the "Closing Date") at the rate Goldman, Sachs & Co., the underwriter of the Series 2007 Bonds (acting in such capacity, the "Underwriter"), determines is necessary to sell the Series 2007 Bonds at par (the "Initial Period Rate"). Thereafter the Auction Period Rate to be applicable to the Series 2007 Bonds during each Auction Period shall be determined by the Auction Agent, and notice thereof shall be given, as provided in Appendix C—"Auction Procedures" hereto. The Auction Period Rate will not exceed the lesser of 13% per annum and the maximum rate permitted by law (the "Maximum Rate"). Interest on the ARS will be computed on the basis of actual days over 360 if the ARS are in an Auction Period which is 180 days or less and on the basis of a 360-day year of twelve 30-day months if the ARS are in an Auction Period which is greater than 180 days.

Payments. While the ARS are book-entry bonds subject to the procedures described in Appendix F—"Book-Entry System," payment of the principal of and interest on any ARS, including the Tender Price upon conversion from the ARS Rate Period, will be made by wire transfer to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. The interest on the ARS will be payable on each of the following dates (each, an "Interest Payment Date"):

- (a) with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, on the Business Day immediately following such Auction Period,
- (b) with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period,
- (c) with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each May 1 and November 1 and on the Business Day immediately following such Flexible Auction Period, and
- (d) the date when the final payment of principal of such ARS becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

The "Record Date" with respect to the ARS will be the Business Day immediately preceding each ARS Interest Payment Date.

If the Book-Entry Only System is ever discontinued for the Series 2007 Bonds, payment of interest on any Interest Payment Date shall be made by check or draft mailed by first class mail to the person whose name appears on the bond registration books of the Bond Trustee as the registered Holder thereof as of the close of business on the Record Date; provided, however, that the principal of and any premium on the Series 2007 Bonds will be paid by wire transfer (in the continental United States) of immediately available funds to any registered owner of at least \$1,000,000 in aggregate principal amount of the Series 2007 Bonds Outstanding, at such registered owner's option, in each case according to wire

instructions given to the Bond Trustee in writing for such purpose. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder as of such Record Date and shall be paid to the person in whose name the Series 2007 Bond is registered at the close of business on a Special Record Date for the payment of such defaulted interest or in any other lawful manner as determined by the Agency in accordance with the Trust Agreement.

Negotiability, Registration and Transfer. So long as the Book-Entry Only System is continued, transfers and exchanges will be effectuated as described in Appendix F.

The Bond Trustee will keep the Register for the registration and registration of transfer of Series 2007 Bonds as provided in the Trust Agreements. Subsequent to the discontinuance of the Book-Entry Only System, the transfer of any Series 2007 Bond may be registered only upon the Register upon surrender thereof to the Bond Trustee together with an assignment duly executed by the registered owner or such owner's attorney or legal representative in such form as shall be satisfactory to the Bond Trustee. Upon any such registration of transfer the Agency will execute and the Bond Trustee will authenticate and deliver in exchange for such Series 2007 Bond a new registered Series 2007 Bond or Bonds, registered in the name of the transferee, of any Authorized Denomination or Denominations authorized by the Trust Agreements in the aggregate principal amount equal to the principal amount of such Series 2007 Bond surrendered or exchanged and bearing interest at the same rate. In all cases in which Series 2007 Bonds shall be exchanged or the transfer of Series 2007 Bonds shall be registered, the Agency will execute and the Bond Trustee will authenticate and deliver at the earliest practicable time Series 2007 Bonds in accordance with the provisions of the Trust Agreements. All Series 2007 Bonds surrendered in any such exchange or registration of transfer will forthwith be cancelled by the Bond Trustee. Registrations of transfer or exchanges of Series 2007 Bonds will be without charge to the Holders of such Series 2007 Bonds, but any taxes or other governmental charges required to be paid with respect to the same shall be paid by the Holder of the Series 2007 Bond requesting such registration of transfer or exchange as a condition precedent to the exercise of such privilege. Neither the Agency nor the Bond Trustee shall be required (i) to issue, transfer or exchange Series 2007 Bonds during a period beginning at the opening of business fifteen (15) days before the day of the mailing of a notice of redemption of Series 2007 Bonds pursuant to the Trust Agreements and ending at the close of business on the day of such mailing or (ii) to transfer or exchange any Series 2007 Bond so selected for redemption in whole or in part.

Auction Procedures. The procedures for submitting Orders on an Auction Date, determining the Auction Period Rate for the related Auction Period, and allocating the Series 2007 Bonds as a result of each Auction are set forth in Appendix C – "Auction Procedures" hereto.

Amendment of Auction Procedures. During an ARS Rate Period, the Auction Procedures and other provisions relating to Auction Rate Securities set forth in Appendix C hereto, including, without limitation, the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended by obtaining the consent of the owners of all affected Outstanding Bonds of a series bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Trust Agreement, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Agency and the Bond Trustee an opinion of Bond Counsel to the effect that such amendment will not adversely affect the validity of the Series 2007 Bonds or any exemption from federal income taxation to which interest on the Series 2007 Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate.

Changes in Auction Period. During an ARS Rate Period, the Borrower may, from time to time, on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Series 2007 Bonds of a series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the affected series of Series 2007 Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Agency, the Bond Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period. The change in the length of the Auction Period shall take effect only if Sufficient Clearing Bids (as defined in Appendix C attached hereto) exist at the Auction on the Auction Date for the new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Holder submits an Order with respect to any Series 2007 Bonds, each Existing Holder shall be deemed to have submitted Sell Orders with respect to all of its Series 2007 Bonds if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Borrower, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the affected series of Series 2007 Bonds. The Auction Agent will provide notice of the Borrower's direction to specify an earlier or later Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Agency, the Borrower and the Broker-Dealers, with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends and the Interest Payment Dates relating to such Auction Period will be adjusted accordingly.

Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth in Appendix C hereto, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealers for a majority of the Outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Holder Registry maintained by the Auction Agent pursuant to the Auction Agreements), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

Interest Rate Period Adjustments; Mandatory Tender for Purchase; Rescission of Election; Failure to Meet Conditions. At any time, the Borrower may elect to convert the Series 2007 Bonds to bear interest at a Daily Interest Rate, a Weekly Interest Rate, a Long-Term Interest Rate or Bond Interest Term Rates. The Borrower must provide a written direction to the Agency, the Bond Trustee, the Auction Agent and the Broker-Dealer of its election to adjust the Series 2007 Bonds of a series to another Interest Rate Period. The Bond Trustee must provide notice of such proposed adjustment to the Holders of the Bonds not less than 30 days prior to the proposed effective date of such adjustment.

The Bonds will be subject to mandatory tender for purchase on the last Interest Payment Date of an Auction Period subject to the terms and conditions provided in the Trust Agreements. The Tender Price will be equal to the principal amount thereof tendered for purchase, without premium. The Tender Price of the Series 2007 Bonds so tendered is payable solely from the proceeds of the remarketing of such Bonds by a remarketing agent appointed by the Borrower. The Financial Guaranty Insurance Policies issued by the Ambac Assurance will not be available to pay the purchase price. See Appendix B – “Summary of the Trust Agreements and Loan Agreements” hereto.

At or prior to 10:00 a.m. New York City time on the Business Day prior to the effective date of any such adjustment, the Borrower may rescind its election to make such adjustment, the Series 2007 Bonds shall not be purchased or deemed purchased and the Auction for the Series 2007 Bonds shall be held on such Auction Date as if no conversion notice had been given.

In the event that Bond Counsel fails to deliver a Favorable Opinion of Bond Counsel on the proposed conversion date, then the Interest Rate Period on the Bonds shall not be adjusted, the Series 2007 Bonds shall not be purchased or deemed purchased and the Series 2007 Bonds shall continue to bear interest at an Auction Period Rate; provided, however, that the interest rate borne by the Series 2007 Bonds which otherwise would have been adjusted during the Auction Period commencing on the failed adjustment date shall be the Maximum Rate and the Auction Period shall be the seven-day Auction Period.

Auction Agent; Auction Agreements. The Bond Trustee, at the written direction of the Borrower, will appoint Deutsche Bank Trust Company Americas as the initial Auction Agent. The Bond Trustee and the Auction Agent will enter into substantially similar Auction Agreements, one with respect to each series of the Series 2007 Bonds, each dated as of October 1, 2007 (the “Auction Agreements”), pursuant to which the Auction Agent will agree to perform certain duties, including determining the Auction Period Rate for the related Auction Period in accordance with the Auction Procedures set forth in Appendix C – “Auction Procedures” hereto.

Broker-Dealer; Broker-Dealer Agreements. The Borrower has appointed Goldman, Sachs & Co. to serve as the initial Broker-Dealer. The Borrower may appoint one or more other Persons to serve as a Broker-Dealer. The Auction Agent, the initial Broker-Dealer and the Borrower will enter into substantially similar Broker-Dealer Agreements, one with respect to each series of the Series 2007 Bonds, each dated as of October 1, 2007 (a “Broker-Dealer Agreements”), pursuant to which such Broker-Dealer will agree to perform certain duties, including following the Auction Procedures set forth in APPENDIX C – “Auction Procedures” hereto.

Redemption of the Series 2007 Bonds

Optional Redemption

While in an ARS Rate Period, the Series 2007 Bonds are subject to optional redemption by the Agency, at the direction of the Borrower Representative on any Interest Payment Date, in whole or in part, at a Redemption Price equal to 100% of the principal amount of the Series 2007 Bonds to be redeemed; *provided, however*, that in the event of a partial redemption of the Series 2007 Bonds bearing interest at the Auction Period Rate, the aggregate principal amount of the Bonds not redeemed must be an integral multiple of \$25,000 and the aggregate principal amount of Bonds bearing interest at an Auction Period Rate which will remain Outstanding after the redemption must be at least \$10,000,000 unless consented to by the Broker-Dealer.

Extraordinary Optional Redemption

If the Borrower exercises its option to prepay one or both of the Loans in full or in part as provided in the Loan Agreements, the Series 2007 Bonds of such series are required to be redeemed in whole if the Loan is prepaid in full, or in part if the Loan is prepaid in part, on any date, by the Agency at the direction of the Borrower Representative, and in either event at a Redemption Price equal to one hundred percent (100%) of the principal amount thereof, without premium, plus accrued interest to the redemption date.

Mandatory Redemption Upon Cessation of Operation

The Series 2007 Bonds are required to be redeemed upon a Cessation of Operation, on a date to be selected by the Agency, which date shall be not more than 45 days after the date the Cessation of Operation was deemed to have occurred, at a Redemption Price equal to 100% of the principal amount of the Series 2007 Bonds to be redeemed, plus accrued interest to the redemption date.

Notice of Redemption

Notice of any redemption shall be given by the Bond Trustee to all Holders owning Series 2007 Bonds to be redeemed not less than 30 days and not more than 60 days prior to the redemption date. Failure to give such notice to any Holder or any defect in any notice so mailed shall not affect the sufficiency of the proceedings for redemption of the Series 2007 Bonds of any other Holders.

From and after the redemption date, if the Bond Trustee or any paying agents hold Available Moneys and/or Defeasance Obligations sufficient to pay the Redemption Price, then the Series 2007 Bonds so called for redemption shall cease to accrue interest or be entitled to any benefit or security under the Trust Agreement, and the Holders of said Series 2007 Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the redemption date.

In the case of an optional redemption or extraordinary optional redemption, the redemption notice may state that (a) it is conditioned upon the deposit of Available Moneys, or Defeasance Obligations purchased with Available Moneys, or a combination of both, in an amount equal to the amount necessary to effect the redemption, with the Bond Trustee no later than the scheduled redemption date or (b) the Borrower retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a "Conditional Redemption"), and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is rescinded as described in this paragraph. In the case of a Conditional Redemption subject to the deposit of Available Moneys or Defeasance Obligations, the failure of the Borrower or any other Person to make such Available Moneys or Defeasance Obligations available in part or in whole on or before the scheduled redemption date shall not constitute an Event of Default under the Trust Agreement and any Series 2007 Bonds subject to such Conditional Redemption will remain Outstanding. Any Conditional Redemption subject to rescission may be rescinded in whole or in part at any time on or prior to the scheduled redemption date if a Corporation Representative instructs the Bond Trustee in writing to rescind the redemption notice. Any Series 2007 Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default under the Trust Agreement. If a Conditional Redemption for which notice has been sent to Holders will not occur, either because Available Moneys or Defeasance Obligations to effect such redemption are not available on or before the scheduled redemption date or the Borrower has rescinded such notice, the Bond Trustee will immediately give notice by Electronic Means to the Securities Depository if all of the Series 2007 Bonds are Book Entry Bonds or the affected Holders of any Series 2007 Bonds that are not Book Entry Bonds that the redemption did not occur and that the Series 2007 Bonds called for redemption and not so paid remain Outstanding.

Special Considerations Relating to Series 2007 Bonds Bearing Interest at Auction Rates

Role of Broker Dealer. Goldman, Sachs & Co. has been appointed by the issuers of various auction rate securities to serve as a dealer in the auctions for those securities and is paid by the issuers for its services.

Goldman, Sachs & Co. receives broker-dealer fees from such issuers at an agreed-upon annual rate that is applied to the principal amount of securities sold or successfully placed through Goldman, Sachs & Co. in Auctions.

Goldman, Sachs & Co. is designated in the Broker-Dealer Agreements as the Broker-Dealer (the "Broker-Dealer") to contact Existing Holders and Potential Holders and solicit Bids for the Series 2007 Bonds. The Broker-Dealer will receive Broker-Dealer Fees from the Borrower with respect to the Series 2007 Bonds sold or successfully placed through it in Auctions. The Broker-Dealer may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auctions for the Series 2007 Bonds.

Bidding by Broker-Dealer. The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because Broker-Dealer would have knowledge of the other Orders placed through it in that Auction and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction and (ii) the Auction will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Borrower to serve as a Broker-Dealer in the Auction for the Series 2007 Bonds, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction may differ from those of Existing Holders and Potential Holders who participate in Auctions for the Series 2007 Bonds. The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker Dealer Agreement.

Where Goldman, Sachs & Co. is the only Broker-Dealer appointed by the Borrower to serve as Broker-Dealer in the Auction, it would be the only Broker-Dealer that submits Orders to the Auction Agent in that Auction for the Series 2007 Bonds. As a result, in such circumstances, the Broker-Dealer could discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with its Order.

The Broker-Dealer may place bids in auctions including auctions for securities other than the Series 2007 Bonds for its own account to acquire securities for its inventory to prevent an "Auction Failure" (which occurs if there is a lack of sufficient clearing bids and results in auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Series 2007 Bonds for its own account, the Broker-Dealer may also Bid inside or outside the range of rates that it posts in its Price Talk. See "Price Talk" below.

The Broker-Dealer routinely encourages bidding by others in auctions for which it serves as Broker-Dealer including auctions for securities other than the Series 2007 Bonds. The Broker-Dealer also may encourage Bidding by others in Auctions, including to prevent an Auction Failure or an Auction from clearing at a rate that the Broker Dealer believes does not reflect the market for the Series 2007 Bonds. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the Series 2007 Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receive fewer Series 2007 Bonds than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Series 2007 Bonds clears successfully does not mean that an investment in the Series 2007 Bonds involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such Bids or not encourage other Bidders to do so in any particular Auction for the Series 2007 Bonds to prevent an Auction Failure or an Auction for the Series 2007 Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Series 2007 Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding bidding by the Broker-Dealer apply only to the Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction, if all outstanding Series 2007 Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If the Broker-Dealer holds any Series 2007 Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction with respect to such Series 2007 Bonds, which would prevent that Auction for the Series 2007 Bonds from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Series 2007 Bonds, as set forth above.

Price Talk. Before the start of an Auction, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Holders and Potential Holders the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Series 2007 Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Series 2007 Bonds will be within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. The Broker-Dealer may occasionally update and change the Price Talk based on changes in the Borrower's or the Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Holders should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealer will not accept "all-or-nothing" Bids (i.e., Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Series 2007 Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. The Broker-Dealer provides no assurance as to the outcome of any Auction for the Series 2007 Bonds. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Series 2007 Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Series 2007 Bonds purchased or retained in the Auction for the Series 2007 Bonds may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy Series 2007 Bonds from or sell Series 2007 Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Series 2007 Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealer to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline — called the "Broker-Dealer Deadline" — by which Bidders must submit Bids to the Broker-Dealer. The Internal Broker-Dealer Deadline is subject to change by the Broker-Dealer. Potential Holders should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may correct Clerical Errors by Broker-Dealer after the Broker-Dealer Deadline and prior to the Submission Deadline. Goldman, Sachs & Co. may submit Bids for its own account at any time until the Submission Deadline.

The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction for the Series 2007 Bonds, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a Clerical Error. In addition, until one hour after the Auction Agent completes the dissemination of the results of an Auction for the Series 2007 Bonds, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a Clerical Error. In the event of such submission, modification or withdrawal, the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Holder's Ability to Resell Auction Rate Securities May Be Limited. An Existing Holder may sell, transfer or dispose of a Series 2007 Bond (i) in an Auction for the Series 2007 Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction, to or through a Broker-Dealer.

Existing Holders will be able to sell all of the Series 2007 Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Series 2007 Bonds in the Auction for the Series 2007 Bonds. If Sufficient Clearing Bids have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction all, and may not be able to sell any, of the Series 2007 Bonds subject to such Submitted Sell Orders. As discussed above (see "*Bidding by Broker-Dealer*"), the Broker-Dealer may submit a Bid in an Auction for the Series 2007 Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Series 2007 Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Borrower's or the Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to Bid.

Between Auctions, there can be no assurance that a secondary market for the Series 2007 Bonds will develop or, if it does develop, that it will provide Existing Holders the ability to resell the Series 2007 Bonds on the terms or at the times desired by an Existing Holder. Goldman, Sachs & Co., in its own discretion, may decide to buy or sell the Series 2007 Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Series 2007 Bonds. However, the Broker-Dealer is not obligated to make a market in the Series 2007 Bonds and may discontinue trading in the Series 2007 Bonds without notice for any reason at any time. Existing Holders who resell between Auctions may receive an amount less than par, depending on market conditions.

If an Existing Holder purchased a Series 2007 Bond through a dealer which is not the Broker-Dealer for the securities, such Existing Holder's ability to sell its security may be affected by the continued ability of its dealer to transact trades for the Series 2007 Bonds through the Broker-Dealer.

The ability to resell the Series 2007 Bonds will depend on various factors affecting the market for the Series 2007 Bonds, including news relating to the Borrower or the Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Series 2007 Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Series 2007 Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions or press reports, financial reporting cycles and market conditions generally. Demand for the Series 2007 Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions. The Auction Agreements provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 60 days notice (30 days if it has not received payment of certain fees) to the Bond Trustee, the Borrower, the Bond Insurer and the Agency, which Auction Agreements do not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place. The Broker-Dealer Agreements provide that the Broker-Dealer may resign upon five business days notice or suspend its duties immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation or suspension, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Series 2007 Bonds, with the result that the interest on such Bonds will be determined set forth in Section 2.04(c) of the Auction Procedures. See "Appendix C – Auction Procedures" hereto.

Acceleration

Upon the occurrence of certain events of default under the Trust Agreements, including, but not limited to, nonpayment of the principal of or interest on the Outstanding Series 2007 Bonds of such series when the same shall become due and payable, the principal of and accrued interest on the Series 2007 Bonds of such series are subject to acceleration as provided in the Trust Agreements, with the consent of Ambac Assurance. For a description of the Events of Default and the circumstances under which acceleration may occur and other remedies available to the Bond Trustee and the Holders of the Series 2007 Bonds, see "Summary of the Trust Agreements and Loan Agreements — Events of Default and Remedies" in Appendix B hereto.

Insured Bonds

Payment of the principal of and interest on each series of the Series 2007 Bonds when due will be insured by Financial Guaranty Insurance Policies to be issued by Ambac Assurance simultaneously with the delivery of the Series 2007 Bonds. See "BOND INSURANCE" herein.

Ambac Assurance's Rights

Under the Trust Agreements, so long as no Insurer Default has occurred and is continuing, Ambac Assurance is deemed to be sole Holder of the Outstanding Series 2007 Bonds, for purposes of giving any consents required by the Trust Agreements or the Loan Agreements or exercising any voting rights given to Holders under the Trust Agreements or in the Loan Agreement or giving any direction or

taking any other action permitted to be taken by or on behalf of the Holders under Trust Agreements or in the Loan Agreement.

BOND INSURANCE

The following information has been furnished by Ambac Assurance for inclusion in this Official Statement. Each Financial Guaranty Insurance Policy shall be separate from, and act independently of, the other Financial Guaranty Insurance Policy. The Financial Guaranty Insurance Policies will contain substantially the same terms and conditions. All references in this Section to the Series 2007 Bonds and the Financial Guaranty Insurance Policy should be read as referring separately to each series of the Bonds and the related Financial Guaranty Insurance Policy. Reference is made to Appendix E – “Specimen Financial Guaranty Insurance Policy” for a specimen of Ambac policy. No representation is made by the Agency, the Borrower or the Underwriter as to the accuracy or completeness of this information.

Ambac Assurance Corporation (“Ambac Assurance”) has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Series 2007 Bonds, effective as of the date of issuance of the Series 2007 Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the “Insurance Trustee”), that portion of the principal of and interest on the Series 2007 Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Bond Trustee. The insurance will extend for the term of the Series 2007 Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series 2007 Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all Outstanding Series 2007 Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on Outstanding Series 2007 Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series 2007 Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Bond Trustee has notice that any payment of principal of or interest on a Series 2007 Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does not insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Series 2007 Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series 2007 Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Series 2007 Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Series 2007 Bond and will be fully subrogated to the surrendering holder's rights to payment.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of the Series 2007 Bonds at auctions or losses suffered as a result of a holder's inability to sell the Series 2007 Bonds.

The Financial Guaranty Insurance Policy does not insure against loss relating to payments of the purchase price of the Series 2007 Bonds upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the Series 2007 Bonds upon tender by a registered owner thereof.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,391,000,000 (unaudited) and statutory capital of approximately \$6,730,000,000 (unaudited) as of June 30, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007;
4. The Company's Current Report on Form 8-K dated and filed on July 25, 2007;
5. The Company's Current Report on Form 8-K dated and filed on August 3, 2007;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2007 and filed on August 9, 2007;
7. The Company's Current Report on Form 8-K dated October 10, 2007 and filed on October 11, 2007; and
8. The Company's Current Report on Form 8-K dated and filed on October 24, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

THE PROJECT AND USE OF BOND PROCEEDS

The Project

The Borrower will use the proceeds of the Series 2007 Bonds to finance the acquisition, installation and construction of flue gas desulphurization (or "scrubber") equipment and related infrastructure (i) at the Belews Creek Steam Station in Stokes County, North Carolina and (ii) at the Allen Steam Station in Gaston County, North Carolina (collectively, the "Projects").

Use of Bond Proceeds

All of the proceeds of the Series 2007 Bonds will be used to finance the cost of the Project described in the preceding paragraph and all or a portion of the costs of issuing the Series 2007 Bonds.

UNDERWRITING

The Series 2007 Bonds are being purchased by Goldman, Sachs & Co. (the "Underwriter"). The purchase contracts, one with respect to each series of the Series 2007 Bonds (the "Bond Purchase Agreements"), set forth the Underwriter's obligation to purchase the Series 2007 Bonds at an aggregate purchase price equal to the par amount of the Series 2007 Bonds, and is subject to certain terms and conditions, including the approval of certain legal matters by counsel. The Borrower will pay the Underwriter an aggregate fee of \$450,000 plus expenses for its services. The Bond Purchase Agreements each provide that the Underwriter will purchase all of the applicable series of the Series 2007 Bonds, if any of the Series 2007 Bonds of such series are to be purchased. The Borrower has agreed to indemnify the Underwriter, the Agency and the LGC as to certain matters in connection with the Series 2007 Bonds.

The Underwriter may offer and sell Series 2007 Bonds to certain dealers including dealer banks and dealers depositing Series 2007 Bonds into investment trusts and others at prices lower than the public offering prices stated on the cover of this Official Statement. The initial public offering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

In each Loan Agreement, the Borrower will undertake, for the benefit of the beneficial owners of the Series 2007 Bonds, to provide:

(a) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending December 31, 2007, to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depository for the State of North Carolina ("SID"), if any, the audited financial statements of the Borrower for such Fiscal Year, if available, or, if such audited financial statements are not available by seven months from the end of such Fiscal Year, the unaudited financial statements for such Fiscal Year to be replaced subsequently by the audited financial statements to be delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ending December 31, 2007, to each NRMSIR, and to the SID, if any, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information

included in Appendix A to this Official Statement, to the extent such items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board ("MSRB"), and to the SID, if any, notice of any of the following events with respect to the Series 2007 Bonds, if material:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (5) substitution of any credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions or events affecting the tax-exempt status of the Series 2007 Bonds;
- (7) modification of the rights of the Beneficial Owners of the Series 2007 Bonds;
- (8) Series 2007 Bond calls;
- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the Bonds; and
- (11) rating changes; and

(d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Borrower to provide required annual financial information described in (a) or (b) above on or before the date specified.

To the extent permitted by the SEC, the Borrower may discharge its undertaking described above by transmitting the applicable documents or notices electronically to www.DisclosureUSA.org.

Each Loan Agreement will also provide that if the Borrower fails to comply with the undertaking described above, the Bond Trustee or any Beneficial Owner of the affected series of Series 2007 Bonds then Outstanding may take action to protect and enforce the rights of all Beneficial Owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an event of default under the Loan Agreement and shall not result in any acceleration of payment of the Series 2007 Bonds of the affected series. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all Beneficial Owners of the affected series of Series 2007 Bonds.

Pursuant to each Loan Agreement, the Borrower will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Borrower, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, composition, nature, or status of the Borrower;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 ("Rule 15c2-12") as of the date of the Official Statement with respect to the Series 2007 Bonds, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Beneficial Owners, as determined either by parties unaffiliated with the Borrower (such as bond counsel), or by approving vote of the registered owners of not less than a majority in principal amount of the affected series of Series 2007 Bonds then Outstanding pursuant to the terms of the Trust Agreement, as it may be amended from time to time.

The Borrower is required to explain, any financial information containing modified operating data or financial information, in narrative form, the reasons for the amendments and the impact of the change in the type of operating data or financial information being provided.

Each undertaking described above shall terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on the related series of the Series 2007 Bonds.

LITIGATION

There is no litigation pending or, to the knowledge of the Agency or the Borrower, threatened against the Agency or the Borrower seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2007 Bonds, or in any way questioning or affecting the validity of the Series 2007 Bonds or any proceedings of the Agency or the Borrower taken with respect to the issuance or sale thereof or questioning or affecting the validity of the pledge or application of any security pledged for the payment of the Series 2007 Bonds or the existence or powers of the Agency to issue the Series 2007 Bonds, or questioning the right of the Borrower to enter into the Loan Agreements to borrow funds for the uses set forth herein.

Other than such legal actions described in the filings incorporated by specific reference in Appendix A hereto relating to the Borrower, there is no litigation or any other proceedings of any nature pending or, to the Borrower's knowledge, threatened against the Borrower that, if decided adversely to the Borrower, would have a material adverse effect on the financial position of the Borrower.

LEGAL MATTERS

Legal matters incident to the authorization and validity of the Series 2007 Bonds are subject to the approving opinion of Robinson, Bradshaw & Hinson, P.A., Bond Counsel. The proposed form of such opinion is included in Appendix D to this Official Statement.

Certain legal matters will be passed on for the Borrower by Robert T. Lucas III, Associate General Counsel to the Borrower, Charlotte, North Carolina. Certain legal matters will be passed on for the Underwriter by Sidley Austin LLP, New York, New York.

TAX TREATMENT

The opinion of Bond Counsel will state that under existing law (a) interest on the Series 2007 Bonds is excludable from gross income for federal income tax purposes, except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the facilities financed by the Series 2007 Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended (the "Code"), (b) interest on the Series 2007 Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and (c) interest on the Series 2007 Bonds is exempt from State of North Carolina income taxes.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2007 Bonds in order for interest on the Series 2007 Bonds to be and remain excludable from gross income for purposes of federal income taxation. Examples include: the requirement that the Issuer rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2007 Bonds to the United States Treasury; restrictions on investment of such proceeds and other amounts; and restrictions on the ownership and use of the facilities financed with proceeds of the Series 2007 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Issuer and the Borrower subsequent to the issuance of the Series 2007 Bonds to maintain the exclusion of interest on the Series 2007 Bonds from income for federal income taxation purposes. Failure to comply with certain of such requirements may cause interest on the Series 2007 Bonds to be included in gross income retroactively to the date of issuance of the Series 2007 Bonds. The Issuer and the Borrower have covenanted to comply with these requirements. The opinion of Bond Counsel delivered on the date of issuance of the Series 2007 Bonds will be conditioned on the compliance by the Issuer and the Borrower with such requirements, and Bond Counsel has not been retained to monitor compliance with requirements such as described above subsequent to the issuance of the Series 2007 Bonds.

Prospective purchasers of the Series 2007 Bonds should be aware that ownership of the Series 2007 Bonds may result in collateral federal, state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax, life insurance companies and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry or have paid or incurred certain expenses allocable to the Series 2007 Bonds. Bond Counsel expresses no opinion regarding any such collateral tax consequences. Prospective purchasers of the Series 2007 Bonds should consult their tax advisors regarding collateral tax consequences.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to revise or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service or the courts; rather, such opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

RATINGS

Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), are expected to assign their insured ratings to each series

of the Series 2007 Bonds of "Aaa" and "AAA," respectively, with the understanding that upon delivery of the Series 2007 Bonds, Financial Guaranty Insurance Policies insuring the payment when due of the principal of and interest on the Series 2007 Bonds will be issued by Ambac Assurance.

There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely if, in the judgment of the respective rating agency, circumstances so warrant. The Underwriter has not undertaken any responsibility either to bring to the attention of owners of the Series 2007 Bonds any proposed revision or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any downward revision or withdrawal of the rating may have an adverse effect on the market prices of the Series 2007 Bonds.

LEGALITY FOR INVESTMENT

The Series 2007 Bonds are legal investments for all public officers and bodies of the State of North Carolina and its political subdivisions and all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries in the State of North Carolina.

MISCELLANEOUS

The Borrower has furnished all information herein relating to the Borrower. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as a contract with the owner of any of the Series 2007 Bonds.

The references herein to the Trust Agreements, the Notes and the Loan Agreements are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of such provisions, reference is made to such instruments, documents and other materials, copies of which will be on file at the office of the Bond Trustee in Chicago, Illinois.

The Agency has duly authorized the execution and delivery of, and the Borrower has approved this Official Statement.

NORTH CAROLINA CAPITAL FACILITIES
FINANCE AGENCY

By: /s/ Dora D. Fazzini

Secretary-Treasurer

Approved:

DUKE ENERGY CAROLINAS, LLC

By: /s/ Stephen G. De May
Assistant Treasurer

Assistant Treasurer

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APPENDIX A

DUKE ENERGY CAROLINAS, LLC

The information contained herein as Appendix A to the Official Statement has been obtained from Duke Energy Carolinas, LLC. The LGC, the Agency and the Underwriter make no representations as to the accuracy or completeness of such information.

Duke Energy Carolinas, LLC ("Duke Energy Carolinas") is a limited liability company organized under the laws of the State of North Carolina. Duke Energy Carolinas' principal executive offices are located at 526 South Church Street, Charlotte, North Carolina 28202. (telephone number: 704-594-6200).

Duke Energy Carolinas generates, transmits, distributes and sells electricity. Its service area covers about 22,000 square miles with an estimated population of 6 million in central and western North Carolina and western South Carolina. Duke Energy Carolinas supplies electric service to more than 2.2 million residential, commercial and industrial customers over 97,000 miles of distribution lines and a 13,000 mile transmission system. In addition, municipal and cooperative customers who purchased portions of the Catawba Nuclear Station may also buy power from a variety of suppliers including Duke Energy Carolinas, through contractual agreements. These electric operations are subject to the rules and regulations of the Federal Energy Regulatory Commission, the North Carolina Utilities Commission and the Public Service Commission of South Carolina.

WHERE YOU CAN FIND MORE INFORMATION

Duke Energy Carolinas electronically files reports with the Securities and Exchange Commission ("SEC"), including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports. The public may read and copy any materials that Duke Energy Carolinas files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. Additionally, information about Duke Energy Carolinas, including its reports filed with the SEC, is available through Duke Energy Corporation's web site at <http://www.duke-energy.com>. Such reports are accessible at no charge through Duke Energy Corporation's web site and are made available as soon as reasonably practicable after such material is filed with or furnished to the SEC. The information on Duke Energy Corporation's website is not part of this Official Statement.

The SEC allows Duke Energy Carolinas to "incorporate by reference" the information Duke Energy Carolinas files with it, which means that Duke Energy Carolinas can disclose important information by referring you to those documents. The information incorporated by reference is an important part of this Official Statement and should be read with the same care. Information that Duke Energy Carolinas files later with the SEC will automatically update and supersede that information.

The following documents filed by Duke Energy Carolinas with the SEC are incorporated in and made a part of this Official Statement by specific reference:

- Annual report on Form 10-K for the year ended December 31, 2006;
- Quarterly reports on Form 10-Q for the quarters ended March 31, 2007 and June 30, 2007; and
- Current reports on Form 8-K filed March 12, 2007, May 31, 2007, June 5, 2007, June 28, 2007, July 5, 2007, July 18, 2007 and October 5, 2007.

Any documents that Duke Energy Carolinas files with the SEC in the future under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 will also be incorporated by reference into this Official Statement until the offering of the Bonds is terminated. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this Official Statement.

You may request a copy of filings (excluding exhibits) made by Duke Energy Carolinas at no cost by writing or calling Duke Energy Carolinas at the following address or one of the following numbers:

Duke Energy
Investor Relations
P.O. Box 1005
Charlotte, NC 28201-1005
(Toll-free) 1-800-488-3853
704-382-3853

APPENDIX B

SUMMARY OF TRUST AGREEMENTS AND LOAN AGREEMENTS

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DEFINITIONS OF CERTAIN TERMS

The following is a summary of the definitions of certain terms contained in each Loan Agreement or Trust Agreement and used in this Official Statement:

“Act” means the Private Capital Facilities Finance Act Chapter 159D, Article 2 of the General Statutes of North Carolina, as amended, or any successor statute.

“Agency” means the North Carolina Capital Facilities Finance Agency, a public agency and an instrumentality of the State of North Carolina, and any successor thereto.

“Agency Representative” means each of the persons at the time designated to act on behalf of the Agency in a written certificate furnished to the Borrower and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Agency by its Chairman, Vice Chairman, Secretary-Treasurer or Deputy Secretary-Treasurer.

“Agreement” or “Loan Agreement” means the Loan Agreement, dated as of October 1, 2007, between the Agency and the Borrower, including any amendments or supplements thereto as therein permitted.

“Alternate Credit Facility” means a replacement irrevocable direct-pay letter of credit that is provided by an entity other than the Bond Trustee or any affiliate of the Bond Trustee unless certain conditions set forth in the Trust Agreement are satisfied, containing administrative provisions reasonably satisfactory to the Bond Trustee, issued and delivered to the Bond Trustee in accordance with the Trust Agreement; provided, however, that any amendment, extension, renewal or substitution of the Credit Facility then in effect for the purpose of extending the expiration date of such Credit Facility or modifying such Credit Facility pursuant to its terms shall not be deemed to be an Alternate Credit Facility for purposes of the Trust Agreement.

“ARS” means, on any date, the Bonds when bearing interest as auction rate securities as provided in Appendix C to this Official Statement, including any Initial Period.

“ARS Rate Period” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction Agent” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction Agreement” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction Date” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction Period” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Auction Period Rate” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

"Authorized Denominations" means: (i) with respect to any Long-Term Interest Rate Period, (A) \$5,000 and any integral multiple thereof if the Bonds have an Investment Grade Rating, or (B) \$100,000 and integral multiples of \$5,000 in excess of \$100,000 otherwise; (ii) with respect to any Short-Term Interest Rate Period, Daily Interest Rate Period or Weekly Interest Rate Period, \$100,000 and any integral multiple of \$5,000 in excess of \$100,000; and (iii) with respect to any ARS Rate Period, "Authorized Denominations" shall have the meaning ascribed thereto in Appendix C to this Official Statement.

"Authorized Liquidity Termination" means a suspension or termination of the Liquidity Facility before its expiration date pursuant to provisions in the Liquidity Facility that allow the Bank to suspend or terminate its obligation to purchase Liquidity Enhanced Bonds immediately upon the occurrence of certain events set forth therein without giving any advance notice to the Agency, the Borrower, the Bond Trustee or Holders.

"Available Moneys" means, if a Credit Facility is in effect, (i) moneys drawn under the Credit Facility which at all times since their receipt by the Bond Trustee or the Tender Agent were held in a separate segregated account or accounts or subaccount or subaccounts in which no moneys (other than those drawn under the Credit Facility) were at any time held, (ii) moneys which have been paid to the Bond Trustee or the Tender Agent by the Borrower and have been on deposit with the Bond Trustee or the Tender Agent for at least 124 days during and prior to which no Event of Bankruptcy shall have occurred, (iii) any other moneys, if, in the opinion of nationally recognized counsel experienced in bankruptcy matters (which opinion shall be acceptable to each Rating Agency then rating the Bonds), the application of such moneys will not constitute a voidable preference in the event of the occurrence of an Event of Bankruptcy, and (iv) investment earnings on any of the moneys described in clauses (i), (ii) and (iii) of this definition; otherwise, "Available Moneys" means any moneys deposited with the Bond Trustee or the Tender Agent.

"Bank" means if a Credit Facility or Liquidity Facility is then in effect with respect to the Bonds, the issuer of the Credit Facility or Liquidity Facility then in effect.

"Bank Bond Interest Differential Amount" means, as to any Bank Bond for any period for which interest on such Bank Bond has not been paid, the difference between the amount of accrued interest on such Bank Bond at the Bank Bond Interest Rate during such period and the amount of interest that would have accrued on such Bank Bond during such period if such Bank Bond had not been a Bank Bond during such period.

"Bank Bond Interest Rate" means the interest rate, if any, specified in the Credit Facility Provider Agreement or Liquidity Facility then in effect with respect to the Bonds as the rate at which Bank Bonds shall bear interest; provided, however, that if no such rate is specified in the Credit Facility Provider Agreement or Liquidity Facility then in effect, then Bank Bonds shall continue to bear interest and such interest shall accrue and be payable as specified in the Trust Agreement as if such Bank Bonds were not Bank Bonds. In no event shall the Bank Bond Interest Rate exceed 22% per annum without the prior written consent of the Agency and the LGC

"Bank Bonds" means any Bonds purchased with moneys furnished by the Bank to the Tender Agent pursuant to the Credit Facility or Liquidity Facility then in effect until such Bonds are remarketed as provided in the Tender Agreement.

"Bankruptcy Code" means Title 11 of the United States Code, as amended, and any successor statute or statutes having substantially the same function.

“Beneficial Owner” means the Person in whose name a Bond is recorded as beneficial owner of such Bond by the Securities Depository or a Participant or an Indirect Participant on the records of such Securities Depository, Participant or Indirect Participant, as the case may be, or such Person’s subrogee.

“Bond Counsel” means a firm of attorneys knowledgeable and experienced in the law relating to municipal securities and the law relating to federal and State taxation of interest thereon and approved by the Agency.

“Bond Fund” means the North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A/B Bond Fund created and so designated by the Trust Agreement and consisting of the Principal Account and the Interest Account.

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Bond Interest Term” means, with respect to any Bond, each period established in accordance with the Trust Agreement during which such Bond shall bear interest at a Bond Interest Term Rate.

“Bond Interest Term Rate” means, with respect to each Bond, a non-variable interest rate on such Bond established periodically in accordance with the Trust Agreement.

“Bond Purchase Fund” means the fund so designated which is established with the Tender Agent pursuant to the Trust Agreement and the Tender Agreement.

“Bonds” means the North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A/B, issued under the Trust Agreement

“Bond Trustee” means the Bond Trustee at the time serving as such under the Trust Agreement, whether the original or a successor trustee, which shall initially be Deutsche Bank National Trust Company, Chicago, Illinois.

“Bond Year” means the period commencing on November 1 of any year and ending on October 31 of the following year; provided, however, that the initial Bond Year shall commence on the Closing Date and end on October 31, 2008.

“Book Entry Bonds” means Bonds for which a Securities Depository or its nominee is the Holder.

“Book-Entry System” means a book-entry system established and operated for the recordation of Beneficial Owners of the Bonds pursuant to the Trust Agreement.

“Borrower” means Duke Energy Carolinas, LLC, a North Carolina limited liability company, and its successors and assigns.

“Borrower Account” means the account bearing such name which is created pursuant to the Tender Agreement.

“Borrower Representative” means any Vice President, the Treasurer, the Assistant Treasurer, Secretary and Assistant Secretary and each other person at the time designated to act on behalf of the

Borrower in a written certificate furnished to the Agency and the Bond Trustee, which certificate shall contain the specimen signature(s) of such person(s) and shall be signed on behalf of the Borrower by any Vice President or other designated officer of the Borrower.

"Broker-Dealer" shall have the meaning ascribed thereto in Appendix C to this Official Statement.

"Broker-Dealer Agreement" shall have the meaning ascribed thereto in Appendix C to this Official Statement.

"Business Day" means any day other than (i) a Saturday, a Sunday or any other day on which banks located in the cities in which the designated corporate trust offices of the Bond Trustee and the Tender Agent and the principal offices of the Bond Trustee, the Remarketing Agent, the Auction Agent, each Broker-Dealer, the Borrower or the Bank are located, or in which the office of the Bank from which payments are made pursuant to the Credit Facility or the Liquidity Facility is located, are authorized or required to remain closed or (ii) a day on which the New York Stock Exchange is closed.

"Ceiling Rate" means the lesser of (i) the highest interest rate that may be borne by the Bonds under applicable State law, (ii) while the Bonds bear interest at a Daily Interest Rate, Weekly Interest Rate or Bond Interest Term Rate, 13% per annum, (iii) while the Bonds bear interest at the Auction Period Rate, "Maximum Rate" as defined in Appendix C to this Official Statement, and (iv) while the Bonds bear interest at the Bank Bond Interest Rate, 22% per annum.

"Cessation of Operation" means that the Borrower has ceased, in the opinion of the Agency, to operate the Project as a "solid waste disposal facility" within the meaning of the Act, provided that, a Cessation of Operation shall not be deemed to have occurred until 90 days shall have elapsed after written notice of such finding by the Agency has been given to the Borrower and the Bond Trustee by the Agency; provided, however, that, if the Borrower commences a contest, at its expense, of the finding of the Agency within the 90-day period described above, no Cessation of Operation will occur until such time as any such contest has been finally determined.

"Closing Date" means the date of delivery of the Bonds against payment therefor.

"Code" means the Internal Revenue Code of 1986, as amended, and all regulations promulgated thereunder.

"Credit Facility" means, with respect to the Trust Agreement, an irrevocable, direct-pay letter of credit issued with respect to the Bonds for the benefit of the Bond Trustee, together with all amendments, renewals and extensions thereof in accordance with its terms and, on the effectiveness of any Alternate Credit Facility, such Alternate Credit Facility.

"Credit Facility Account" means the account within the Bond Purchase Fund bearing such name which is created pursuant to the Tender Agreement.

"Credit Facility Provider" means the issuer of the Credit Facility then in effect and, upon the effectiveness of an Alternate Credit Facility, the issuer of such Alternate Credit Facility.

"Credit Facility Provider Agreement" means the agreement between the Borrower and/or any of its Affiliates and the Credit Facility Provider, pursuant to which the Credit Facility is issued by the Credit Facility Provider, as the same may be amended or supplemented, and any such other similar agreement or

agreements as may be entered into from time to time between the Borrower and/or any of its Affiliates and the provider of any Alternate Credit Facility.

"Daily Interest Rate" means a variable interest rate on the Bonds established in accordance with the Trust Agreement.

"Daily Interest Rate Period" means each period during which a Daily Interest Rate is in effect.

"Defaulted Interest" means any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date.

"Defeasance Obligations" means, with respect to the Trust Agreement, (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, which Government Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian; (iii) Defeased Municipal Obligations and (iv) evidences of ownership of a proportionate interest in specified Defeased Municipal Obligations, which Defeased Municipal Obligations are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity as custodian.

"Defeased Municipal Obligations" means obligations of state or local government municipal bond issuers which are rated in the highest rating category by S&P and Moody's, respectively, provision for the payment of the principal of and interest on which shall have been made by deposit with a trustee or escrow agent of (i) noncallable Government Obligations, (ii) evidences of ownership of a proportionate interest in specified noncallable Government Obligations, (iii) cash or (iv) any combination of such noncallable Government Obligations, evidences of ownership and cash, which Government Obligations or evidences of ownership, together with any cash, are held by a bank or trust company organized and existing under the laws of the United States of America or any state thereof in the capacity of custodian, the maturing principal of and interest on such Government Obligations or evidences of ownership, when due and payable, being sufficient, together with any cash, to provide money to pay the principal of, premium, if any, and interest on such obligations of such state or local government municipal bond issuers.

"Electronic Means" means telephone, telecopy, telegraph, telex, internet, facsimile transmission or any other similar means of electronic communication. Any communication by telephone as an Electronic Means shall be promptly confirmed in writing or by one of the other means of electronic communication authorized herein.

"Event of Bankruptcy" means any of the following events:

- (i) the Borrower (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Agreement, the Note or a Credit Facility Provider Agreement, or an "affiliate" of the Borrower as defined in Bankruptcy Code § 101(2)) or the Agency shall (a) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of the Borrower (or such other Person) or the Agency or of all or any substantial part of their respective property, (b) commence a voluntary case under the Bankruptcy Code, or (c) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; or

(ii) a proceeding or case shall be commenced, without the application or consent of the Borrower (or any other Person obligated, as guarantor or otherwise, to make payments on the Bonds or under the Agreement, the Note or a Credit Facility Provider Agreement, or an "affiliate" of the Borrower as defined in Bankruptcy Code § 101(2)) or the Agency in any court of competent jurisdiction, seeking (a) the liquidation, reorganization, dissolution, winding-up, or composition or adjustment of debts, of the Borrower (or any such other Person) or the Agency, (b) the appointment of a trustee, receiver, custodian, liquidator or the like of the Borrower (or any such other Person) or the Agency or of all or any substantial part of their respective property, or (c) similar relief in respect of the Borrower (or any such other Person) or the Agency under any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts.

"Event of Default" means, with respect to the Agreement, each of those events set forth under the caption "SUMMARY OF THE LOAN AGREEMENT—Events of Default and Remedies" herein, and with respect to the Trust Agreement, each of those events set forth under the caption "SUMMARY OF THE TRUST AGREEMENT—Events of Default" herein.

"Favorable Opinion of Bond Counsel" means an opinion of Bond Counsel, addressed to the Agency, the Borrower, the Bond Trustee, the Bond Insurer, the Tender Agent, the Remarketing Agent, the Bank, the Auction Agent and each Broker-Dealer, to the effect that the action proposed to be taken is authorized or permitted by the laws of the State and the Trust Agreement and will not adversely affect any exclusion from gross income for federal income tax purposes, or any exemption from State income taxes, of interest on the Bonds.

"Fiscal Year" means the fiscal year of the Borrower, which period commences on January 1 of each year and ends on December 31 of the following year, unless the Bond Trustee and the Agency are notified in writing by the Borrower of a change in such period, in which case the Fiscal Year shall be the period set forth in such notice.

"Fitch" means Fitch Ratings, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower, with the consent of the Remarketing Agent or each Broker-Dealer, and the Agency, by notice to the Bond Trustee.

"Flexible Auction Period" shall have the meaning ascribed hereto in Appendix C to this Official Statement.

"Government Obligations" means direct obligations of, or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Holder" means a person in whose name a Bond is registered in the registration books maintained by the Bond Trustee.

"Indirect Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository through a Participant.

"Initial Period" shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Initial Period Rate” shall have the meaning ascribed thereto in Appendix C to this Official Statement.

“Insurance Agreement” means the Insurance Agreement dated as of October 1, 2007 between the Bond Insurer and the Borrower.

“Insurer Default” means any of the following: (i) there shall occur a default in the payment of principal of or any interest on any Bond when required to be made by the Bond Insurance Policy; (ii) the Bond Insurance Policy shall have been declared null and void or unenforceable in a final non-appealable determination by a court of law; (iii) a proceeding shall have been instituted in a court having jurisdiction in the premises seeking a decree or order for relief in respect of the Bond Insurer in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect or for the appointment of a receiver, liquidator, assignee, custodian, trustee or sequestrator (or other similar official) of the Bond Insurer for any substantial part of its property or for the winding-up or liquidation of its affairs and such proceeding shall remain undismissed or unstayed and in effect for a period of 60 consecutive days or such court shall enter a decree or order granting the relief sought in such proceeding; or (iv) the Bond Insurer shall voluntarily suspend transaction of its business, shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law or shall consent to appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian or sequestrator (or other similar official) of the Bond Insurer or for any substantial part of its property, or shall make a general assignment for the benefit of creditors.

“Interest Account” means the account in the Bond Fund created and so designated by the Trust Agreement.

“Interest Accrual Date” means (i) with respect to any Daily Interest Rate Period, the first day thereof and the first day of each succeeding calendar month during such Daily Interest Rate Period, (ii) with respect to any Weekly Interest Rate Period, the first day thereof and the first Business Day of each succeeding calendar month during such Weekly Interest Rate Period, (iii) with respect to any Long-Term Interest Rate Period, the first day thereof and, thereafter, each Interest Payment Date in respect thereof, other than the last such Interest Payment Date during such Long-Term Interest Rate Period, and (iv) with respect to each Bond Interest Term within any Short-Term Interest Rate Period, the first day thereof.

“Interest Payment Date” means:

- (a) with respect to Bonds which are ARS, “Interest Payment Date” shall have the meaning ascribed thereto in Appendix C to this Official Statement;
- (b) with respect to any Daily Interest Rate Period, the fifth Business Day of each calendar month;
- (c) with respect to any Weekly Interest Rate Period, the first Business Day of each calendar month;
- (d) with respect to any Long-Term Interest Rate Period, each May 1 and November 1;
- (e) with respect to any Bond Interest Term within a Short-Term Interest Rate Period, the day next succeeding the last day of such Bond Interest Term;

- (f) with respect to each Interest Rate Period, the day next succeeding the last day thereof; and
- (g) with respect to Bank Bonds, the days on which interest is due pursuant to the Credit Facility Provider Agreement or the Liquidity Facility then in effect;

“Interest Rate Period” means any Daily Interest Rate Period, Weekly Interest Rate Period, ARS Rate Period, Short-Term Interest Rate Period or Long-Term Interest Rate Period.

“Investment Grade Rating” means, with respect to the Trust Agreement, a long-term debt rating of “Baa3” or higher by Moody’s or “BBB-” or higher by S&P or “BBB-” or higher by Fitch, or any other rating approved by the Agency and the LGC.

“Liquidity Enhanced Bonds” means, if a Liquidity Facility is in effect, Bonds in the Daily Interest Rate Period, Weekly Interest Rate Period or Short-Term Interest Rate Period (except a Short-Term Interest Rate Period where all Bond Interest Terms end on the day prior to the maturity date of the Bonds).

“Liquidity Facility” means a liquidity facility meeting the requirements of the Trust Agreement and, upon the effectiveness of any Substitute Liquidity Facility, such Substitute Liquidity Facility.

“Liquidity Provider Account” means the account bearing such name which is created pursuant to the Tender Agreement.

“Loan” means the loan of the proceeds of the Bonds made by the Agency to the Borrower pursuant to the Agreement.

“Loan Repayments” means those payments so designated by and set forth in the Agreement.

“Local Government Commission” or “LGC” means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, and any successor or successors thereto.

“Long-Term Interest Rate” means, with respect to each Bond, a term, non-variable interest rate on such Bond established in accordance with the Trust Agreement.

“Long-Term Interest Rate Period” means each period during which a Long-Term Interest Rate is in effect.

“Moody’s” means Moody’s Investors Service, Inc., a corporation organized and existing under the laws of Delaware, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower, with the consent of the Remarketing Agent or each Broker-Dealer, and the Agency, by notice to the Bond Trustee.

“Officer’s Certificate” means a certificate signed by an Agency Representative or a Borrower Representative, as the case may be.

“Opinion of Counsel” means, with respect to the Trust Agreement, an opinion in writing signed by an attorney or firm of attorneys acceptable to the Bond Trustee who may be counsel for the Agency, the Borrower or other counsel.

"Outstanding" means, with respect to the Bonds, at any date as of which the amount of Outstanding Bonds is to be determined, all Bonds that have been authenticated and delivered by the Bond Trustee under the Trust Agreement, except:

(1) Bonds canceled or delivered for cancellation at or prior to such date;

(2) Bonds for the payment of which Available Moneys, Defeasance Obligations, or a combination of both, sufficient to pay, on the date when such Bonds are to be paid or redeemed, the principal amount of or the Redemption Price of, and the interest accruing to such date on, the Bonds to be paid or redeemed, has been deposited with the Bond Trustee in trust for the Holders of such Bonds; Defeasance Obligations shall be deemed to be sufficient to pay or redeem Bonds on a specified date if the principal of and the interest on such Defeasance Obligations, when due, will be sufficient to pay on such date the principal amount or the Redemption Price of, and the interest accruing on, such Bonds to such date;

(3) Bonds in exchange for or in lieu of which other Bonds have been issued;

(4) Undelivered Bonds.

provided, however, that Bonds owned or held by or for the account of the Borrower, any Affiliate or any subsidiary or controlled affiliate of the Borrower or any Affiliate shall not be deemed Outstanding Bonds for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in those Articles in the Trust Agreement entitled "Default Provisions and Remedies," "Amendments and Supplements," and "Defeasance" or the Section of the Agreement entitled "Amendment of Agreement," and neither the Borrower nor any Affiliate as registered owners of such Bonds shall be entitled to consent or take any other action provided for in the above-mentioned provisions of the Trust Agreement or of the Agreement; provided, further, however, that if all of the Bonds are at any time held by or for the account of the Borrower or any Affiliate, then such Bonds shall be deemed to be Outstanding at such times for purposes of the Trust Agreement. The term "Outstanding" specifically includes any Bond with respect to which the principal or interest has been paid by the Bond Insurer.

"Participant" means a broker-dealer, bank or other financial institution for which the Securities Depository holds Bonds as a securities depository.

"Permitted Investments" means any investment to the extent from time to time permitted by applicable law, included but not limited to N.C.G.S. §159-30, as amended from time to time, or any successor statutes.

"Person" means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Principal Office" means, so long as Deutsche Bank National Trust Company is serving as Bond Trustee hereunder, the Bond Trustee's principal office located at 222 South Riverside Plaza, 25th Floor, Chicago, Illinois 60606, and as to any successor Bond Trustee, its designated principal office.

"Project Fund" means the North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A/B Project Fund created and so designated by the Trust Agreement.

"Rating Agency" means, with respect to the Trust Agreement, each of Fitch when the Bonds are rated by Fitch, Moody's when the Bonds are rated by Moody's, and S&P when the Bonds are rated by S&P.

"Redemption Fund" means the North Carolina Capital Facilities Finance Agency Solid Waste Disposal Revenue Bonds (Duke Energy Carolinas Project) Series 2007A/B Redemption Fund created and so designated by the Trust Agreement.

"Redemption Price" means, with respect to any Bond or a portion thereof, the principal amount of such Bond or portion thereof plus the applicable premium, if any, payable upon redemption thereof in the manner contemplated in accordance with the terms of the Trust Agreement and the applicable resolutions of the Agency.

"Register" means the register of the record owners of Bonds maintained by the Bond Trustee pursuant to the Trust Agreement.

"Regular Record Date" means (a) with respect to any Interest Payment Date in respect of any Daily Interest Rate Period, the last Business Day of the calendar month immediately preceding such Interest Payment Date or, in the case of the last Interest Payment Date in respect of a Daily Interest Rate Period, the Business Day immediately preceding such Interest Payment Date; (b) with respect to any Interest Payment Date in respect of any Weekly Interest Rate Period or any Short-Term Interest Rate Period, the Business Day immediately preceding such Interest Payment Date; (c) with respect to each Interest Payment Date for Bonds bearing interest at an Auction Period Rate, "Record Date" as defined in Appendix C to this Official Statement; and (d) with respect to any Interest Payment Date in respect of any Long-Term Interest Rate Period, the fifteenth (15th) day of the month immediately preceding such Interest Payment Date (whether or not a Business Day) or, in the event that an Interest Payment Date shall occur less than fifteen (15) days after the first day of a Long-Term Interest Rate Period, such first day.

"Remarketing Account" means the account bearing such name which is created in the Bond Purchase Fund pursuant to the Tender Agreement.

"Remarketing Agent" means any remarketing agent appointed in accordance with the Trust Agreement.

"Required Payments under the Agreement" means the payments so designated by the Agreement.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a New York Corporation, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Borrower, with the consent of the Remarketing Agent or each Broker-Dealer and the Agency, by notice to the Bond Trustee.

"Securities Depository" means The Depository Trust Company, New York, New York, and any substitute for or successor to such securities depository that shall maintain a Book-Entry System with respect to the Bonds.

"Securities Depository Nominee" means the Securities Depository or the nominee of such Securities Depository in whose name there shall be registered on the Register the Bonds to be delivered to such Securities Depository during the continuation with such Securities Depository of participation in its Book-Entry System.

“Self Liquidity Arrangement” means a self liquidity arrangement meeting the requirements set forth in the Trust Agreement.

“Short-Term Interest Rate Period” means each period, consisting of Bond Interest Terms, during which the Bonds bear interest at one or more Bond Interest Term Rates.

“SIFMA Index” means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the Securities Industry and Financial Markets Association (“SIFMA”) or any person acting in cooperation with or under the sponsorship of SIFMA and acceptable to the Remarketing Agent.

“State” means the State of North Carolina.

“Tax Certificate” means the Tax Certificate and Agreement, dated as of the Closing Date, executed by the Agency and the Borrower in connection with the issuance of the Bonds.

“Tender Agent” means the initial and any successor tender agent appointed in accordance with the Trust Agreement.

“Tender Agreement” means any agreement among the Tender Agent then serving hereunder, the Borrower and the Remarketing Agent, as the same may be amended or supplemented from time to time.

“Total Required Payments” means the sum of the Loan Repayments and the Required Payments under the Agreement.

“Trust Agreement” means the Trust Agreement securing the Bonds, dated as of October 1, 2007, by and between the Agency and Deutsche Bank National Trust Company, New York, New York, as trustee, including any trust agreement amendatory thereof or supplemental thereto.

“Undelivered Bonds” means any Bonds so designated in accordance with the provisions of the Trust Agreement.

“Weekly Interest Rate” means a variable interest rate on the Bonds established in accordance with the Trust Agreement.

“Weekly Interest Rate Period” means each period during which a Weekly Interest Rate is in effect.

SUMMARY OF EACH LOAN AGREEMENT

Security for the Loan

As evidence of the Borrower’s obligation to repay the Loan, the Borrower has executed and delivered a promissory note (the “Note”) to the Agency.

Total Required Payments

The Borrower is required to make Loan Repayments and Required Payments under the Agreement when due. Loan Repayments are to be paid, when due and payable, to the Bond Trustee for

deposit in the Bond Fund or the Redemption Fund, as the case may be. Required Payments under the Agreement are to be paid by the Borrower directly, when due and payable, to the persons, firms, governmental agencies and other entities entitled thereto, including the United States Government as provided in the Tax Certificate, as the case may be.

Loan Repayments

Loan Repayments are required to be sufficient in the aggregate to repay the Loan and interest thereon and to pay in full, when due (whether by maturity, redemption, acceleration or otherwise), all Bonds issued under the Trust Agreement, together with the total interest and redemption premium, if any, thereon. The Borrower is required to repay the Loan in semi-annual interest installments and annual principal installments or as otherwise provided in the Agreement, each installment being deemed a Loan Repayment. The Borrower may prepay all or any part of the Loan as provided in the Agreement.

Required Payments Under the Agreement

The Borrower will pay, when due and payable, as Required Payments under the Agreement, the following costs and expenses, exclusive of costs and expenses payable from the proceeds of the Bonds:

- (i) to the Tender Agent, such amounts as shall be necessary to enable the Tender Agent to pay the purchase price of any Bonds tendered or deemed tendered for purchase on the date such Bonds are required to be purchased; provided, however, that the obligation of the Borrower to make any payment of purchase price of any Bonds tendered or deemed tendered for purchase shall be deemed to be satisfied and discharged to the extent of any moneys furnished to the Tender Agent pursuant to a Credit Facility or Liquidity Facility or any remarketing proceeds furnished to the Tender Agent;
- (ii) the fees and other costs of services of the Bond Trustee, the Tender Agent, the Remarketing Agent, the Auction Agent and the Broker-Dealers;
- (iii) all costs incurred in connection with the purchase or redemption of Bonds to the extent money is not otherwise available therefor;
- (iv) the fees and other costs incurred for services of such attorneys, management consultants and accountants as are employed to make examinations, provide services, render opinions or prepare reports required under the Agreement, the Trust Agreement, the Auction Agreement, the Remarketing Agreement, each Broker-Dealer Agreement, the Liquidity Facility, a Credit Facility Provider Agreement or the Tender Agreement;
- (v) all costs incurred by the Agency or the Bond Trustee in connection with the discontinuation of or withdrawal from any book-entry system for the Bonds or any transfer from one book-entry system to another including, without limitation, the printing and issuance of additional or substitute Bonds in connection with such withdrawal, discontinuance or transfer;
- (vi) reasonable fees and other costs that the Borrower is obligated to pay, not otherwise paid under the Agreement or the Trust Agreement, incurred by the Agency or the Bond Trustee in connection with its administration and enforcement of, and compliance with, the Agreement, the Trust Agreement, the Remarketing Agreement or the Tender Agreement;
- (vii) fees and other costs incurred in connection with the issuance of the Bonds to the extent such fees and other costs are not paid from the proceeds of the Bonds;

(viii) the fees and other costs of the Local Government Commission incurred in connection with the issuance of the Bonds to the extent such fees and other costs are not paid from the proceeds of the Bonds; and

(ix) all amounts required to be paid to the Tender Agent pursuant to the Trust Agreement on the date of remarketing of Bank Bonds.

The Borrower will also cause to be paid the Rebate Requirement (as defined in the Tax Certificate) to the United States Government.

Absolute Obligation to Make Total Required Payments

The obligation of the Borrower to make the Loan Repayments and to make all other Required Payments under the Agreement and the Note and to perform and observe the other agreements contained in the Agreement shall be absolute and unconditional. The Borrower will pay without abatement, diminution or deduction (whether for taxes or otherwise) all such amounts regardless of any cause or circumstance whatsoever, including, without limitation, any defense, set-off, recoupment or counterclaim that the Borrower may have or asserts against the Agency or the Bond Trustee or any other person.

Covenants Regarding the Project

The Agreement sets forth certain other agreements of the Borrower with respect to completing, insuring and operating the Project.

Events of Default and Remedies

Events of Default are defined in the Agreement to include: (1) failure of the Borrower to make any payment under the Loan Agreement or the Note when due, whether at maturity, prepayment, redemption, acceleration or otherwise, (2) failure of the Borrower to perform, observe or comply with any covenant, condition or agreement on its part under the Agreement (other than a failure to make any payment described in (1) above), and such failure continues for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, shall have been given to the Borrower by the Bond Trustee or the Bond Insurer; provided, however, that if such performance, observation or compliance requires work to be done, action to be taken or conditions to be remedied, which by their nature cannot reasonably be done, taken or remedied, as the case may be, within such 30-day period, no Event of Default will be deemed to have occurred or to exist if, and so long as the Borrower shall commence such performance, observation or compliance within such period and will diligently and continuously prosecute the same to completion, (c) an event of default shall occur under the Trust Agreement, or (d) certain bankruptcy-related events relating to the Borrower shall occur.

Whenever an Event of Default shall have occurred and be continuing, the Agency, by written notice to the Borrower may, and upon the direction of the Bond Insurer, shall, declare the entire outstanding principal balance of the Note, together with all interest accrued thereon to the date of such acceleration, to be immediately due and payable and such principal and interest shall thereupon become and be immediately due and payable.

Prepayment of Loan

Optional Prepayment. The Borrower has the option to prepay all or any portion of the unpaid aggregate amount of the Note, together with accrued interest to the date of prepayment, by purchasing Bonds and delivering them to the Bond Trustee for cancellation or by redeeming Bonds in accordance

with the terms and provisions of the Trust Agreement. Such prepayment shall be made by the Borrower taking, or causing the Agency to take, the actions required (i) for payment of the Bonds, whether by redemption or purchase prior to maturity or by payment at maturity, or (ii) to effect the purchase, redemption or payment at maturity of less than all of the Outstanding Bonds according to their terms.

Extraordinary Prepayment. The Borrower shall have the option to prepay (a) in whole or in part, from amounts received by the Borrower from a draw on the Credit Facility representing insurance proceeds with respect to any casualty loss or failure of title or condemnation awards, upon damage to or destruction of all or any part of the Project constituting land, buildings or equipment by fire or casualty or loss of title to or use of all or any part of the Project as a result of the failure of title or as a result of eminent domain proceedings or proceedings in lieu thereof (if such damage, destruction, loss of title or loss of use causes such Project to be impracticable to operate for a period of at least six months); (b) in whole, upon changes in the Constitution of the United States of America or of the State of North Carolina or of legislative or administrative action, or failure of administrative action by the United States or the State of North Carolina or any agency or political subdivision of either, or by reason of any judicial decision to such extent that, in the opinion of the board of directors of the Borrower and an independent management consultant, (i) the Agreement is impossible to perform without unreasonable delay or (ii) unreasonable burdens or excessive liabilities not being imposed as of the date of the Agreement are imposed on the Borrower; or (c) in whole, in the event changes, which the Borrower cannot reasonably control, in the economic availability of materials, supplies, labor, equipment, or other properties or things necessary for the efficient operation of the Project shall have occurred, which in the judgment of the Borrower, render the continued operation of the Project uneconomical; or changes in circumstances, after issuance of the Bonds, including but not limited to changes in solid waste abatement, control and disposal requirements, shall have occurred such that the Borrower shall determine use of the Project is no longer required or desirable.

The provisions of the Agreement described in the preceding paragraphs under this subcaption will not be construed to prohibit the Borrower from applying insurance proceeds with respect to any casualty loss or condemnation awards or payments in lieu thereof to the optional prepayment of the Note in accordance with the provisions of the Agreement described under the subcaption entitled "Optional Prepayment."

Mandatory Prepayment upon a Cessation of Operation. The Borrower shall be required to prepay all of the unpaid aggregate amount of the Loan, together with accrued interest to the date of prepayment, upon a Cessation of Operation.

Notice. To make a prepayment in accordance with the provisions of the Agreement described under the preceding paragraphs under this caption, the Corporation Representative will give written notice to the Agency and the Bond Trustee which will specify therein (i) the date of the intended prepayment of the Loan, which will not be less than 35 days nor more than 60 days from the date notice is mailed, (ii) the aggregate principal amount of the Bonds to be purchased, redeemed or paid at maturity and the date or dates on which the purchase, redemption or payment is to occur, and (iii) the maturity or maturities of the Bonds to be purchased, redeemed or paid.

The Borrower shall have the right to condition any notice of optional or extraordinary prepayment in the same manner provided for redemption notices in the Trust Agreement. If a Conditional Redemption does not occur for either of the reasons permitted under the Trust Agreement, the corresponding notice of prepayment given pursuant to the Agreement shall be deemed to be revoked.

Members, Directors, Officers and Employees of Agency, Borrower and Local Government Commission Not Liable

Neither the members, officers and employees of the Agency or the Local Government Commission nor the members of the Board of Directors or the officers and employees of the Borrower will be personally liable for any costs, losses, damages or liabilities caused or subsequently incurred by the Borrower or any officer, director or agent thereof in connection with or as a result of the Agreement.

Amendments to Loan Agreement

The Agreement may be amended, without the consent of or notice to any of the Holders to (1) cure any ambiguity or defect or omission or correct or supplement any provision in the Agreement or any supplemental agreement thereto; (2) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee, which are not contrary to or inconsistent with the Agreement or the Trust Agreement as then in effect; (3) add to the provisions of the Agreement other conditions, limitations and restrictions on the Borrower to be observed thereafter which are not contrary to or inconsistent with the Agreement or the Trust Agreement as then in effect; or (4) make any other change that is determined by the Bond Trustee, who may rely upon an Opinion of Counsel, to be not materially adverse to the interest of the Holders.

Exclusion From Gross Income Covenant

The Borrower covenants that it will not take any action which will, or fail to take any action which failure will, cause interest on the Bonds to become includable in the gross income of the Holders for federal income tax purposes pursuant to the provisions of the Code and regulations promulgated thereunder. The Borrower will comply with its obligations as provided in the Tax Agreement.

SUMMARY OF EACH TRUST AGREEMENT

Various Funds and Accounts Created by the Trust Agreement

The Trust Agreement creates the following funds:

1. The Project Fund,
2. The Bond Fund, in which there is established a Principal Account and an Interest Account; and
3. The Redemption Fund.

The money and the securities in each of the aforementioned funds and accounts shall be held in trust and shall be subject to a lien and charge in favor of the Holders of the Bonds until paid out or transferred as provided in the Trust Agreement.

Project Fund

The money in the Project Fund shall be held by the Bond Trustee in trust and, subject to the provisions of the Trust Agreement, shall be applied to the payment of costs of the Project and costs of the issuance of the Bonds.

Bond Purchase Fund

The Trust Agreement also obligates the Tender Agent to establish and maintain a separate segregated trust fund designated as the Bond Purchase Fund, within which there will be established four separate and segregated accounts designated the "Remarketing Account," the "Credit Provider Account," the "Liquidity Provider Account" and the "Borrower Account."

Deposits to the Bond Fund

The Bond Trustee will deposit all amounts received as Loan Repayments under the Agreement in the following order, subject to the credits provided in the Trust Agreement:

(i) to the credit of the Interest Account, while the Bonds bear interest at a Daily Interest Rate, a Weekly Interest Rate, an Auction Period Rate or Bond Interest Term Rates, on the Business Day next preceding each Interest Payment Date, and, while the Bonds bear interest at a Long-Term Interest Rate, on the 25th day of the month preceding each Interest Payment Date, an amount equal to the interest payable on the Bonds on such Interest Payment Date, less any applicable credit under this caption; provided, however, that if the interest rate on the Bonds is subject to adjustment pursuant to the terms of the Trust Agreement after the date of such required deposit, interest accruing on the Bonds from such adjustment date shall be assumed to accrue at the Ceiling Rate; provided, further, that if a Credit Facility is in effect, no deposit shall be required to be made until such Interest Payment Date;

(ii) into the Principal Account, on November 1, 2040, the amount required to be paid at maturity on such date;

(iii) to the credit of the Interest Account, any amounts that may from time to time be required to enable the Bond Trustee to pay the accrued interest on Bonds purchased or redeemed from money in the Redemption Fund in accordance with the Trust Agreement; and

(iv) to the credit of the Redemption Fund, any amounts that may from time to time be required to enable the Bond Trustee to pay principal of the Bonds and any redemption premiums as and when the Bonds are called for redemption.

If, after giving effect to the credits specified below, any installment of Loan Repayments is insufficient to enable the Bond Trustee to make the deposits required above, the Bond Trustee will so notify the Borrower and request that each future installment of the Loan Repayments be increased as may be necessary to make up any previous deficiency in any of the required payments and to make up any deficiency or loss in any of the above-mentioned funds and accounts.

To the extent that principal of, redemption premium, if any, or interest on the Bonds is to be paid from amounts drawn under a Credit Facility and deposited in the Principal Account, Interest Account or the Redemption Fund, as appropriate, deposits then due to be made into such funds and accounts and future deposits to such funds and accounts will be reduced by the amount so deposited, and the Loan Repayments due on or following the date such amounts are deposited will be reduced by the amounts so deposited.

To the extent that investment earnings are credited to the Interest Account in accordance with the terms of the Trust Agreement or amounts are credited thereto as a result of a transfer of investment earnings on any other fund or account held by the Bond Trustee, or otherwise, future deposits to such accounts will be reduced by the amount so credited, and the Loan Repayments due following the date upon which such amounts are credited will be reduced by the amounts so credited.

All amounts received by the Bond Trustee as principal of or interest accruing on the Bonds to be redeemed as a result of a prepayment of the Note shall be deposited in the Redemption Fund and the Interest Account, respectively, when received. All amounts received by the Bond Trustee as redemption premiums shall be deposited in the Redemption Fund when received.

While a Credit Facility is in effect, each deposit into the Bond Fund or the Redemption Fund not constituting Available Moneys shall be placed in a separate subaccount within the Principal Account, the Interest Account or the Redemption Fund, as appropriate, and may not be commingled with other money in any such subaccount until such money becomes Available Moneys.

Under the Trust Agreement, the Bond Trustee is directed to withdraw from the Interest Account, the Principal Account or the Redemption Fund, as applicable, and make available at the Principal Office of the Bond Trustee sufficient funds (to the extent available) to pay the principal of, redemption premium, if any, and interest on the Bonds as the same become due and payable, whether due on an Interest Payment Date, by maturity, acceleration, redemption or otherwise, only in the following order of priority:

FIRST: Amounts drawn by the Bond Trustee under a Credit Facility;

SECOND: Available Moneys on deposit in such funds or accounts, other than amounts received by the Bond Trustee in respect of drawings under a Credit Facility.

THIRD: Any other amounts in such funds or accounts including, but not limited to, moneys obtained from the Borrower.

Bond Fund Accounts

Interest Account

At such time as to enable the Bond Trustee to make payments of interest on the Bonds in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Interest Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the Bonds on the next succeeding Interest Payment Date; provided, however, that in no event shall the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding each Interest Payment Date, and provided further that such wire transfer shall be made not later than 1:00 P.M. on each Interest Payment Date.

If a Credit Facility is in effect and the Credit Facility Provider fails to pay a conforming draw in immediately available funds by 1:00 p.m. on an Interest Payment Date, the Bond Trustee will immediately notify the Borrower of the amount of the deficiency. Upon notification, the Borrower is obligated to deliver immediately to the Bond Trustee an amount sufficient to cure the same.

If no Credit Facility is in effect, then in the event the balance in the Interest Account on (i) the Business Day next preceding an Interest Payment Date or date upon which Bonds are to be redeemed while the Bonds bear interest at a Daily Interest Rate, a Weekly Interest Rate, an Auction Period Rate or Bond Interest Term Rates, or (ii) on the 26th day of the month next preceding an Interest Payment Date or date upon which Bonds are to be redeemed, while the Bonds bear interest at Long-Term Rate, is insufficient for the payment of interest becoming due on the Bonds on such Interest Payment Date or date upon which Bonds are to be redeemed, the Bond Trustee shall notify the Borrower of such deficiency. Upon notification, the Borrower is obligated to deliver immediately to the Bond Trustee an amount sufficient to cure the same.

Principal Account

At such time as to enable the Bond Trustee to make payments of principal on the Bonds at maturity in accordance with any existing agreement between the Bond Trustee and any Securities Depository, the Bond Trustee will withdraw from the Principal Account and remit by wire transfer, in Federal Reserve or other immediately available funds, the amounts required to pay to any Holder which is a Securities Depository Nominee interest on the Bonds on the maturity date; provided, however, that in no event shall the Bond Trustee be required to make such wire transfer prior to the Business Day next preceding the maturity date, and provided further that such wire transfer shall be made not later than 1:00 P.M. on the maturity date.

Redemption Fund

Money held for the credit of the Redemption Fund shall be applied to the purchase or redemption of Bonds as provided in the Trust Agreement. The expenses in connection with the purchase or redemption of Bonds are required to be paid by the Borrower as part of the Required Payments under the Agreement.

Investment of Money

Money held by the Bond Trustee for the credit of all funds and accounts created under the Trust Agreement shall be continuously invested and reinvested by the Bond Trustee in Permitted Investments to the extent practicable in accordance with the instructions of the Borrower. Any such Permitted Investments shall mature not later than the respective dates when the money held for the credit of such funds or accounts will be required for the purposes intended.

Permitted Investments credited to any fund or account established under the Trust Agreement will be held by or under the control of the Bond Trustee and while so held will be deemed at all times to be part of such fund or account in which such money was originally held, and the interest accruing thereon and any profit or loss realized upon the disposition or maturity of such investment shall be credited to or charged against such fund or account. The Bond Trustee shall sell at the market price available or reduce to cash a sufficient amount of such Permitted Investment whenever it shall be necessary so to do in order to provide money to make any payment or transfer of money from any such fund or account. Neither the Bond Trustee nor the Agency will be liable or responsible for any loss resulting from any investment or the sale of any investment made in accordance with the provisions of the Trust Agreement or for the tax consequences thereof.

Valuation

For the purpose of determining the amount on deposit in any fund or account, Permitted Investments in which money in such fund or account is invested shall be valued at the market value thereof.

The Bond Trustee will value the Permitted Investments in the funds and accounts established under the Trust Agreement and held by the Bond Trustee on the last Business Day of each March, June, September and December and at such other times, as specifically requested by the Borrower in writing, as shall be required in order for the Borrower to comply with the Tax Certificate. In addition, the Permitted Investments shall be valued by the Bond Trustee at any time requested by the Agency Representative or the Corporation Representative on reasonable notice to the Bond Trustee (which period of notice may be waived or reduced by the Bond Trustee); provided, however, that the Bond Trustee shall not be required

to value the Permitted Investments more than once in any calendar month except as provided in the Trust Agreement.

Events of Default

Each of the following events is an Event of Default under the Trust Agreement:

- (a) payment of any installment of interest on any Bond is not made when the same becomes due and payable;
- (b) payment of the principal or the redemption premium, if any, on any Bond is not made when due and payable, whether at maturity or by proceedings for redemption, acceleration or otherwise;
- (c) payment of the purchase price of any Bonds tendered or deemed tendered for purchase on any purchase date shall not be made when the same shall become due and payable;
- (d) default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Trust Agreement or any agreement supplemental thereto and such default shall continue for 30 days or such further time as the Bond Trustee (with the consent of the Bond Insurer) deems to be in the best interests of the Holders as may be granted in writing by the Bond Trustee after receipt by the Agency of a written notice from the Bond Trustee specifying such default and requiring the same to be remedied; provided, however, if prior to the expiration of such 30-day period the Agency institutes action reasonably designed to cure such default, no Event of Default shall be deemed to have occurred upon the expiration of such 30-day period for so long as the Agency pursues such curative action with reasonable diligence and provided that such curative action can be completed within a reasonable time;
- (e) an "Event of Default" has occurred under the Agreement or the Insurance Agreement, and such "Event of Default" shall not have been remedied or waived;
- (f) if a Credit Facility is in effect and no Bond Insurance Policy is in effect, the Bond Trustee shall have received written notice from the Credit Facility Provider that an "event of default" has occurred under the Credit Facility Provider Agreement, and such "event of default" has not been remedied or waived; or
- (g) if a Credit Facility is in effect that does not provide for automatic reinstatement of drawings to pay interest on the Bonds and no Bond Insurance Policy is in effect, the Bond Trustee shall have received, within the period specified in the Credit Facility for delivery of a notice that the amount of an interest drawing will not be reinstated, written notice from the Credit Facility Provider that it has not been reimbursed for the amount of an interest drawing together with interest, if any, due pursuant to the Credit Facility Provider Agreement and that the amount of such drawing will not be reinstated as provided in the Credit Facility.

Remedies on Default

Upon the happening and continuance of any Event of Default under the Trust Agreement, the Bond Trustee may with the prior written consent of the Bond Insurer, and upon the direction of the Bond Insurer or the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding, the Bond Trustee immediately shall, by notice in writing to the Agency, the Local Government Commission, the Borrower and the Bond Insurer, declare the principal of all Bonds then Outstanding (if not then due and payable) to be immediately due and payable. Such declaration may be rescinded under circumstances specified in the Trust Agreement.

Upon the happening and continuance of any Event of Default under the Trust Agreement, the Bond Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding shall, proceed, subject, in certain circumstances, to the right of the Bond Trustee to be indemnified to its satisfaction as provided in the Trust Agreement, to protect and enforce its rights and the rights of the Holders under the laws of the State or under the Trust Agreement by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in aid or execution of any power granted by the Trust Agreement or for the enforcement of any proper legal or equitable remedy, as the Bond Trustee, being advised by counsel chosen by the Bond Trustee, shall deem most effectual to protect and enforce such rights.

Control of Proceedings

Subject to the rights of the Bond Insurer, the Holders of a majority in aggregate principal amount of Bonds then Outstanding shall have the right, subject, in certain circumstances, to the right of the Bond Trustee to be indemnified to its satisfaction as provided in the Trust Agreement, by an instrument or concurrent instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Bond Trustee under the Trust Agreement, provided, however, that such direction shall be in accordance with law and the provisions of the Trust Agreement.

Restrictions upon Actions by Individual Holders

No Holder shall have any right to institute any suit, action or proceeding in equity or at law on any Bond or for the execution of any trust or any remedy under the Trust Agreement unless such Holder has previously given to the Bond Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, and unless also the Holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding shall have made a written request of the Bond Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Bond Trustee a reasonable opportunity either to proceed to exercise its powers granted in the Trust Agreement or to institute such action, suit or proceedings in its or their name, and unless, also, there shall have been offered to the Bond Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred in connection with such request, and the Bond Trustee shall have refused or neglected to comply with such request within a reasonable time. Notwithstanding the foregoing provisions of this paragraph and without complying therewith, the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding may institute any such suit, action or proceeding in their own names for the benefit of all Holders. It is understood and intended that, except as otherwise above provided, no one or more Holders shall have any right in any manner whatsoever by his or their action to affect, disturb or prejudice the security of the Trust Agreement, or to enforce any right thereunder except in the manner provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner provided in the Trust Agreement and for the benefit of all Holders and that any individual rights of action or other right given to one or more of such Holders by law are restricted by the Trust Agreement to the rights and remedies provided in the Trust Agreement.

Notwithstanding the immediately preceding paragraph, nothing in the Trust Agreement shall affect or impair the right of any Holder to enforce the payment of the principal of and interest on his Bond or the obligation of the Agency to pay the principal of and interest on each Bond to the Holder thereof at the time and place in said Bond expressed.

Pro Rata Application of Funds

Anything in the Trust Agreement to the contrary notwithstanding, if at any time the money in the Bond Fund shall not be sufficient to pay the interest on or the principal of Bonds as the same shall become due and payable (either by their terms or by acceleration of maturities pursuant to the provisions of the Trust Agreement), such money, together with any money then available or thereafter becoming available for such purpose, whether through the exercise of the remedies provided for under the Trust Agreement or otherwise, will be applied as follows:

(a) to the payment of the cost and expenses of any proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Bond Trustee, including reasonable attorneys' fees, and all other outstanding fees and expenses of the Bond Trustee, and thereafter any fees, expenses, liabilities and advances due to, or incurred or made by, the Tender Agent, the Remarketing Agent, the Auction Agent and each Broker-Dealer;

(b) to the payment of any sums due to the Agency under the Loan Agreement (other than Loan Repayments);

(c) if the principal of all Bonds shall not have become or shall not have been declared due and payable, all such money in the Bond Fund shall be applied:

First: to the payment to the persons entitled thereto of all installments of interest on Bonds then due and payable in the order in which such installments became due and payable and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment, ratably according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds;

Second: to the payment to the persons entitled thereto of the unpaid principal of any Bonds that shall have become due and payable (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of the Trust Agreement), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full the principal of Bonds due and payable on any particular date, then to the payment ratably according to the amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

Third: to the payment of the interest on and the principal of Bonds, to the purchase and retirement of Bonds, and to the redemption of Bonds, all in accordance with the provisions of the Trust Agreement.

(d) If the principal of all Bonds shall have become or shall have been declared due and payable, all such money shall be applied to the payment of principal and interest then due upon the Bonds without preference to the persons entitled thereto without preference or priority of principal over interest or interest over principal, or of any installment of interest over any other installment of interest or any Bond over any other Bond ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto, without any discrimination or preference.

(e) If the principal of all Bonds shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled pursuant to the provisions of the Trust Agreement, then, subject to the provisions of subparagraph (b) above in the event that the principal of all Bonds shall later become due and payable or be declared due and payable, the money then remaining in

and thereafter accruing to the Bond Fund shall be applied in accordance with the provisions of subparagraph (a) above.

Whenever money is to be applied by the Bond Trustee pursuant to the provisions described above, such money will be applied by the Bond Trustee at such times and from time to time, as the Bond Trustee in its sole discretion shall determine, having due regard for the amount of such money available for such application and the likelihood of additional money becoming available for such application in the future; the setting aside of such money, in trust for the proper purpose, shall constitute proper application by the Bond Trustee, and the Bond Trustee shall incur no liability whatsoever to the Agency, to any Holder or to any other person for any delay in applying any such money so long as the Bond Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with such provisions of the Trust Agreement as may be applicable at the time of application by the Bond Trustee. Whenever the Bond Trustee exercises such discretion in applying such money, it will fix the date (which shall be an Interest Payment Date unless the Bond Trustee shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give notice by first class mail, postage prepaid, to all Holders of the fixing of any such date, and shall not be required to make payment to the Holder of any Bonds until such Bonds shall be surrendered to the Bond Trustee for cancellation if fully paid.

Notwithstanding the immediately preceding paragraph, if a Credit Facility is in effect, (i) no amounts shall be paid pursuant to subparagraphs (a) and (b) under this caption from money derived from a drawing under the Credit Facility, proceeds from remarketing of Bonds or money held for the payment of Undelivered Bonds, and (ii) unless the Credit Facility permits drawings to pay redemption premium with respect to the Bonds, no money derived from a drawing under the Credit Facility shall be used to pay redemption premium with respect to the Bonds.

Notice of Default

The Bond Trustee shall, upon notice of an Event of Default under the Trust Agreement, immediately notify the Agency, the LGC, the Bank and the Borrower of such Event of Default by Electronic Means. The Bond Trustee shall mail to all Holders at their addresses as they appear on the Register written notice of the occurrence of any Event of Default within 30 days after the Bond Trustee has notice, as determined pursuant to the provisions of the Trust Agreement, that any such Event of Default has occurred. Except upon the happening of an Event of Default under the Trust Agreement described in subparagraphs (a) or (b) under the caption "Events of Default" above, or the happening of an event of default described in subparagraphs (a) or (c) under the caption "SUMMARY OF THE LOAN AGREEMENT – Events of Default and Remedies," the Bond Trustee may withhold such notice to the Holders if, in the Bond Trustee's opinion, such withholding is in the interest of the Holders. The Bond Trustee shall not be subject to any liability to any Holder by reason of its failure to mail any such notice.

Indemnification of Bond Trustee as Condition for Remedial Action

Except for accelerating the Bonds as required under the Trust Agreement and described above under the caption "The Trust Agreement – Remedies on Default," taking action to draw on a Credit Facility and paying principal of, and premium, if any, and interest on, Bonds, the Bond Trustee shall be under no obligation to institute any suit or to take any remedial proceeding (including, but not limited to, the appointment of a receiver) under the Trust Agreement or the Agreement or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of any of the trusts created under the Trust Agreement or in the enforcement of any rights and powers under the Trust Agreement, until it shall be indemnified to its satisfaction against any and all costs and

expenses, outlays and counsel fees and other reasonable disbursements, and against all liability. The Bond Trustee nevertheless may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Bond Trustee, without indemnity, and in such case the Agency, at the request of the Bond Trustee, shall reimburse the Bond Trustee from the revenues of the Agency derived from funds available under the Agreement for all costs, expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith. If the Agency shall fail to make such reimbursement, the Bond Trustee may reimburse itself from any money in its possession under the provisions of the Trust Agreement and shall be entitled to a preference therefor over any Bonds Outstanding under the Trust Agreement.

Resignation or Removal of Bond Trustee

No resignation or removal of the Bond Trustee and no appointment of a successor Bond Trustee under the Trust Agreement shall be effective until the acceptance of appointment by the successor Bond Trustee as provided in the Trust Agreement and the Credit Facility (if a Credit Facility is then in effect) is transferred to the successor Bond Trustee.

The Bond Trustee may resign and thereby become discharged from the trusts created by the Trust Agreement, by notice in writing given to the Agency and the Borrower and mailed, postage prepaid, at the Bond Trustee's expense, to each Holder, not less than 60 days before such resignation is to take effect, but such resignation will take effect immediately on the appointment of a new Bond Trustee under the Trust Agreement if such new Bond Trustee is appointed before the time limit set forth in such notice and then accepts the trusts under the Trust Agreement and the Credit Facility (if a Credit Facility is then in effect) is transferred to the successor Bond Trustee.

The Bond Trustee may be removed, (a) at any time by an instrument or concurrent instruments in writing, executed by the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the Agency or (b) so long as no Event of Default under the Trust Agreement has occurred and is continuing, by an instrument in writing executed by the Borrower Representative, with the prior written consent of the Agency, and filed with the Agency not less than 60 days before such removal is to take effect as stated in said instrument or instruments.

The Bond Trustee may also be removed at any time for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of the Trust Agreement with respect to the duties and obligations of the Bond Trustee by any court of competent jurisdiction upon the application of the Agency or the Holders of not less than 25% in aggregate principal amount of Bonds then Outstanding.

For purposes of giving any consents required under the Trust Agreement or in the Agreement or exercising any voting rights given to Holders under the Trust Agreement or in the Agreement or giving any direction or taking any other action permitted to be taken by or on behalf of the Holders under the Trust Agreement or under the Agreement, so long as no Insurer Default has occurred and is continuing, the Bond Insurer shall be deemed to be the sole Holder of Bonds then Outstanding.

Modification of the Trust Agreement

The Agency and the Bond Trustee may, from time to time and at any time, enter into agreements supplemental to the Trust Agreement, without the consent of or notice to any Holder, to effect any one or more of the following: (a) cure any ambiguity or defect or omission or correct or supplement any provision in the Trust Agreement or any supplemental trust agreement thereto; (b) grant to or confer upon the Bond Trustee for the benefit of the Holders any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Holders or the Bond Trustee which are not

contrary to or inconsistent with the Trust Agreement as then in effect or to subject to the pledge and lien of the Trust Agreement additional revenues, properties or collateral, including Defeasance Obligations; (c) add to the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed which are not contrary to or inconsistent with the Trust Agreement as then in effect; (d) add to the covenants and agreements of the Agency in the Trust Agreement other covenants and agreements thereafter to be observed by the Agency or to surrender any right or power by the Trust Agreement reserved to or conferred upon the Agency which are not contrary to or inconsistent with the Trust Agreement as then in effect; (e) permit the qualification of the Trust Agreement under any federal statute now or hereafter in effect or under any state Blue Sky law, and, in connection therewith, if the Agency so determines, to add to the Trust Agreement or any supplemental trust agreement such other terms, conditions and provisions as may be permitted or required by such federal statute or Blue Sky law; (f) make any other change that is determined by the Bond Trustee, who may rely upon an Opinion of Counsel, to be not materially adverse to the interests of the Holders; (g) if all of the Bonds are Book Entry Bonds, to amend, modify, alter or replace any of the provisions of the Trust Agreement relating to Book Entry Bonds; (h) facilitate the issuance and delivery of certificated Bonds to Beneficial Owners if the book-entry system for the Bonds is discontinued; (i) subject to the approval of the Bond Insurer, make any change to the administrative provisions of the Trust Agreement to accommodate the provisions of a Credit Facility, a Substitute Liquidity Facility, a Self Liquidity Arrangement or bond insurance policy; (j) subject to the approval of the Bond Insurer, prior to the adjustment of the interest rate on the Bonds to the Auction Period Rate, to modify any of the provisions of the Trust Agreement relating to ARS; and (k) add to the provisions of the Trust Agreement other conditions, limitations and restrictions thereafter to be observed.

The Trust Agreement may be amended in any particular, with the consent of the Holders of not less than a majority in aggregate principal amount of Bonds then Outstanding, provided, however that nothing contained in the Trust Agreement permits (a) without the consent of the Holder of such Bond, (i) an extension of the maturity of the principal of, or the mandatory redemption date of, or interest on, any Bond or (ii) a reduction in the principal amount of, or the premium or the rate of interest on, any Bond or (b) without the consent of the Holders of all Bonds Outstanding, (i) the creation of a pledge of receipts and revenues to be received by the Agency under the Agreement superior to the pledge created by the Trust Agreement, (ii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (iii) a reduction in the aggregate principal amount of Bonds required for any consent to any supplemental trust agreement.

Upon a replacement of the Liquidity Facility with a Credit Facility, the Bonds will be subject to mandatory tender in accordance with the provisions of the Trust Agreement as described in the front part of this Official Statement under "THE SERIES 2007 BONDS—Tender and Purchase of Bonds."

Defeasance

When among other things, the principal, premium, if any, and interest due upon all of the Bonds shall be paid or, with respect to Bonds not yet due and payable, sufficient Available Moneys or Defeasance Obligations or a combination of both are held by the Bond Trustee for such payment, then the right, title and interest of the Bond Trustee in the funds and accounts created under the Trust Agreement will cease and the Bond Trustee will release the Trust Agreement.

No Recourse Against Members, Officers or Employees of Agency or Local Government Commission

No recourse under, or upon, any statement, obligation, covenant, or agreement contained in the Trust Agreement, or in any Bond thereby secured, or in any document or certification whatsoever, or under any judgment obtained against the Agency or the LGC or by the enforcement of any assessment or

by any legal or equitable proceeding by virtue of any constitution or statute or otherwise or under any circumstances, shall be had against any member, officer or employee, as such, of the Agency or the LGC, either directly or through the Agency or the LGC, respectively, or otherwise, for the payment for or to the Agency or the LGC or any receiver of either of them, or for, or to, any Holder or otherwise, of any sum that may be due and unpaid upon any Bond.

Consent of the Bond Insurer in Addition to Consent of the Holders

Any provision of the Trust Agreement expressly recognizing or granting rights in or to the Bond Insurer may not be amended in any manner which affects the rights of the Bond Insurer under the Trust Agreement without the prior written consent of the Bond Insurer. Unless otherwise provided in the Trust Agreement, the Bond Insurer's consent shall be required in lieu to the consent of the Holders, when required, for the following purposes: (i) execution and delivery of any supplemental trust agreement, amendment of the Agreement or any amendment, supplement or change to or modification thereof; (ii) removal of the Bond Trustee and selection and appointment of any successor trustee; and (iii) initiation or approval of any action not described in (i) or (ii) above which requires consent of the Holders.

Consent of the Bond Insurer in the Event of Insolvency

Any reorganization or liquidation plan with respect to the Borrower must be acceptable to the Bond Insurer. In the event of any reorganization or liquidation of the Borrower the Bond Insurer shall have the right to vote on behalf of all Holders of Bonds insured by the Bond Insurer, unless an Insurer Default has occurred and is continuing.

Consent of the Bond Insurer Upon Default

Anything in the Trust Agreement to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default as defined in the Trust Agreement, the Bond Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Holders or the Bond Trustee for the benefit of the Holders under the Trust Agreement, including, without limitation: (i) the right to accelerate the principal of the Bonds as described in the Trust Agreement, and (ii) the right to annul any declaration of acceleration, and the Bond Insurer shall also be entitled to approve all waivers of Events of Default.

Acceleration Rights

Upon the occurrence of an Event of Default, the Bond Trustee may, with the consent of the Bond Insurer, and shall, at the direction of the Bond Insurer or 25% of the Holders with the consent of the Bond Insurer, by written notice to the Borrower and the Bond Insurer, declare the principal of the Bonds to be immediately due and payable, whereupon that portion of the principal of the Bonds thereby coming due and the interest thereon accrued to the date of payment shall, without further action, become and be immediately due and payable, anything in the Trust Agreement or in the Bonds to the contrary notwithstanding.

In the event that the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid) with respect to the Bonds, and the Bond Trustee shall accept such amounts. Upon payment of all of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy shall be fully discharged.

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APPENDIX C
AUCTION PROCEDURES

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APPENDIX C

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ARTICLE I

Definitions

The following words and terms as used in this Appendix C (hereinafter "this Appendix") and elsewhere in the Trust Agreements have the following meanings with respect to the Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent:

"**Agent Member**" means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

"**All Hold Rate**" means, as of any Auction Date, the interest rate per annum equal to 60% of the Index in effect on such Auction Date.

"**ARS Conversion Date**" means the date on which the Bonds convert from an Interest Rate Period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

"**ARS Rate Period**" means any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of the Bonds.

"**Auction**" means each periodic implementation of the Auction Procedures.

"**Auction Agent**" means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be Deutsche Bank Trust Company Americas.

"**Auction Agreement**" means an agreement between the Auction Agent and the Bond Trustee pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while the Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

"**Auction Date**" means with respect to the Bonds:

(a) Daily Auction Period. If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business

Day next preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for the Series 2007A Bonds is December 14, 2007 and for the Series 2007B Bonds is December 20, 2007.

“**Auction Desk**” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“**Auction Period**” means with respect to the Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to the Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to the Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to the Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to the Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to the Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or the ARS Conversion Date and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to the Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period or the ARS Conversion Date and ending on the next succeeding March 31 and September 30;

Provided, however, that if there is a conversion of the Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

The Auction Period for the Bonds initially shall be the 35-day Auction Period.

"Auction Period Rate" means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

"Auction Procedures" means the procedures for conducting auctions for the Bonds during an ARS Rate Period set forth in this Appendix.

"Auction Rate" means for the Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for the Bonds, and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for the Bonds.

"Authorized Denomination" means \$25,000 and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate, notwithstanding anything else in the Trust Agreement to the contrary.

"Available Bonds" means, on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

"Bid" has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

"Bidder" means each Existing Holder and Potential Holder who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Borrower and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Borrower. The "Broker-Dealer of record" with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Holder of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent. The initial Broker-Dealer shall be Goldman, Sachs & Co.

"Broker-Dealer Agreement" means an agreement among the Auction Agent, the Borrower and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix, as such agreement may from time to time be amended or supplemented.

"Broker-Dealer Deadline" means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

"Business Day" in addition to any other definition of "Business Day" included in the Trust Agreement, while the Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

"Clerical Error" means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an

Order received from one or more Existing Holders or Potential Holders (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a "Clerical Error" is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

"Conversion Date" means the date on which the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

"Electronic Means" means facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

"Error Correction Deadline" means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

"Existing Holder" means a Person who is the beneficial Holder of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Holder.

"Flexible Auction Period" means with respect to the Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of the Bonds.

"Hold Order" means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix.

"Index" means, on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the One Month LIBOR Rate on such date and, with respect to Bonds in any Auction Period of more than 35 days, the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other

source as may be mutually agreed upon by the Borrower and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Borrower. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

"Initial Period" means the period from the Closing Date to but not including December 17, 2007 for the Series 2007A Bonds and December 21, 2007 for the Series 2007B Bonds, and each period specified to be an "Initial Period" in a direction of the Borrower to convert to the Auction Period Rate.

"Initial Period Rate" means, for each Initial Period, the interest rate per annum determined by the Underwriter or the Broker-Dealer.

"Interest Payment Date" with respect to the Bonds while bearing interest at Auction Period Rates, means, notwithstanding anything else in the Trust Agreement to the contrary, (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each May 1 and November 1 and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise). The first Interest Payment Date for the 2007A Bonds shall be December 17, 2007 and for the Series 2007B Bonds shall be December 21, 2007. The first Interest Payment Date after each ARS Conversion Date shall be the date specified in a direction of the Borrower to convert to the Auction Period Rate.

"Maximum Rate" means the lesser of 13% per annum and the Maximum Lawful Rate, in each case calculated in the same manner as interest is calculated for the particular interest rate on the Bonds.

"One Month LIBOR Rate" means, as of any date of determination, the offered rate (rounded up to the next highest 0.001%) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBOR01 Page at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

"Order" means a Hold Order, Bid or Sell Order.

"Person" has the meaning given to such term in the Trust Agreement.

"Potential Holder" means any Person, including any Existing Holder, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Holder.

"Record Date" means, notwithstanding anything else in the Trust Agreement, while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

"Securities Depository" means, notwithstanding anything else in the Trust Agreement to the contrary, The Depository Trust Company and its successors and assigns or any other securities depository selected by the Borrower.

"Sell Order" has the meaning specified in subsection (a) of Section 2.01 of this Appendix.

"Submission Deadline" means 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Bond Trustee or the Borrower pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the "SIFMA Recommendation") unless the Auction Agent is instructed otherwise in writing by the Bond Trustee or the Borrower. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

"Submitted Bid" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"Submitted Hold Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"Submitted Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"Submitted Sell Order" has the meaning specified in subsection (b) of Section 2.04 of this Appendix.

"Sufficient Clearing Bids" means for the Bonds, an Auction for which the number of Units of the Bonds that are the subject of Submitted Bids by Potential Holders specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of the Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Holders specifying rates higher than the Maximum Rate.

"Trust Agreement" means the Trust Agreement, dated as of October 1, 2007, between the Agency and the Bond Trustee, as supplemented from time to time in accordance with its terms.

"Units" has the meaning set forth in Section 2.02(a)(iii) of this Appendix.

"Winning Bid Rate" means for the Bonds, the lowest rate specified in any Submitted Bid of the Bonds which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of the Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of the Bonds.

ARTICLE II

Auction Procedures

Section 2.01 Orders by Existing Holders and Potential Holders. (a) Prior to the Broker-Dealer Deadline for the Bonds on each Auction Date:

(i) each Existing Holder may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder commits to continue to hold for the next succeeding Auction Period if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Holder which such Existing Holder offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Holder may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Holder offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Holder.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Holder or a Potential Holder or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Holder shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

- (ii) A Sell Order by an Existing Holder shall constitute an offer to sell:
 - (A) the principal amount of Bonds specified in such Sell Order; or
 - (B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.
- (iii) A Bid by a Potential Holder shall constitute an offer to purchase:
 - (A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or
 - (B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.
- (c) Anything herein to the contrary notwithstanding:
 - (i) If an Order or Orders covering all of the Bonds held by an Existing Holder is not submitted to the Broker-Dealer of record for such Existing Holder prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Bonds held by such Existing Holder and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds to be converted held by such Existing Holder, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Holder covering the principal amount of Bonds to be converted held by such Existing Holder not subject to Orders submitted to such Broker-Dealer.
 - (ii) for purposes of any Auction, any Order by any Existing Holder or Potential Holder shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and
 - (iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02 Submission of Orders by Broker-Dealers to Auction Agent.

- (a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for the Bonds, all Orders with respect to the Bonds accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:
 - (i) the name of the Broker-Dealer;
 - (ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Holder:

(A) the number of Units of Bonds, if any, subject to any Hold Order placed by such Existing Holder;

(B) the number of Units of Bonds, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and

(C) the number of Units of Bonds, if any, subject to any Sell Order placed by such Existing Holder; and

(v) to the extent such Bidder is a Potential Holder, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Holder, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Holder submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Holders with those of other Potential Holders on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Holders with other Existing Holders on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) None of the Agency, the Borrower, the Bond Trustee or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Holder, Potential Holder or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of

(A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Holder or Potential Holder or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Holder or Potential Holder or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Holder, a Potential Holder or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03 Treatment of Orders by the Auction Agent. Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Holder up to and including the excess of the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Holder up to and including the excess of the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Holder in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of Bonds subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Holder;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds equal to the excess of the number of Units of Bonds for which such

Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of Bonds considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Bond Trustee, Agency or Borrower that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Bond Trustee, Agency or Borrower has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04 Determination of Auction Period Rate. (a) If requested by the Bond Trustee or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Bond Trustee, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for the Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the

time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 85% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Bond Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be 85% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Bond Trustee, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate or an All Hold Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Section 2.05 Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids for the Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for the Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Holder shall be accepted, thus requiring each such Existing Holder to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Holder shall be accepted and the Submitted Bid of each Existing Holder specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Holder specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Holder specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Holder specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Holder to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Holder to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Holder specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Holder specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for the Bonds, Submitted Orders for the Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Holder shall be accepted, thus requiring each such Existing Holder to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Holder specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Holder to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Holder specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Holder to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Holder shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Holder specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Holder subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Holder shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Holder specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in Section 2.05(a) or (b) above, any Existing Holder or Potential Holder would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Holder or Potential Holder on such Auction Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Holders or Potential Holders not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the undertakings described in Section 2.05(a) above, any Potential Holder would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Holders so that the principal amount of the Bonds purchased on such Auction Date by any Potential Holder shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Holders not purchasing the Bonds on such Auction Date.

Section 2.06 Notice of Auction Period Rate. (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected and the number of Units of Bonds, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Holder;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Holders on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Holders on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Holders on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Holders on whose behalf such Broker-Dealer submitted Bids;

(vi) the amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder shall: (i) if requested by an Existing Holder or a Potential Holder, advise such Existing Holder or Potential Holder on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Holder was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Holder on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Borrower, Agency and Bond Trustee by mutually acceptable Electronic Means and the Bond Trustee shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07 Index.

(a) If for any reason on any Auction Date the Index shall not be determined, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided herein shall be conclusive and binding upon the Agency, the Borrower, the Bond Trustee, the Broker-Dealers, the Auction Agent and the Holders of the Bonds.

Section 2.08 Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix, each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to the Bonds, the provisions of the Trust Agreement and the definitions contained herein and described in this Appendix, including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended pursuant to the Trust Agreement by obtaining the consent of the Holders of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the registered Holders of the affected Outstanding Bonds as required by the Trust Agreement, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Borrower and the Bond Trustee an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered Holders of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Agency that it is unwilling or unable to continue as registered Holder of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Agency within 90 days after the Agency receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Agency shall execute and the Bond Trustee shall authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Agency and the Bond Trustee.

During an ARS Rate Period, so long as the Holdership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Holder or a beneficial Holder may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Holder or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Holder of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(d) The Auction Agent shall continue to implement the Auction Procedures notwithstanding the occurrence of an Event of Default under the Trust Agreement.

Section 2.09 Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Borrower, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and

financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Bonds. The Borrower shall initiate the change in the length of the Auction Period by giving written notice to the Agency, the Bond Trustee, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Holder submits an Order with respect to any Bonds, each Existing Holder shall be deemed to have submitted Sell Orders with respect to all of its Bonds if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Borrower, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Borrower's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Agency, the Borrower and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which a Flexible Auction Period begins and ends and the Interest Payment Dates relating to any Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by the Broker-Dealers for a majority of the outstanding Units (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Holder Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

ARTICLE III

Other Provisions Relating To Auction Rate Securities

Section 3.01 ARS Interest Accrual and Payments.

(a) Interest with respect to ARS shall accrue from and including, as applicable, the Closing Date, the ARS Conversion Date or an Interest Payment Date to but not including the next Interest Payment Date.

(b) The Bond Trustee shall compute the amount of interest payable with respect to ARS on each Interest Payment Date.

Interest due on the first Interest Payment Date after the Closing Date and each ARS Conversion Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the Initial Period Rate multiplied by (ii) the principal amount of \$25,000 multiplied by (iii) if the number of days in the Initial Period is less than 180, the number of days in the Initial Period, and, if the number of days in the Initial Period is 180 or greater, the number of days in the Initial Period, or part thereof, assuming twelve 30-day months, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward).

Interest due on each subsequent Interest Payment Date with respect to each \$25,000 in principal amount of ARS shall equal (i) the Auction Period Rate multiplied by (ii) the principal amount of \$25,000 multiplied by (iii) if the number of days in the Auction Period is less than 180, the number of days in the Auction Period, and, if the number of days in the Auction Period is 180 or greater, the number of days in the Auction Period, or part thereof, assuming twelve 30-day months, divided by (iv) 360, and rounding the resultant figure to the nearest cent (a half cent being rounded upward).

The Bond Trustee shall notify the Securities Depository of its calculations, as provided in Section 3.02(b) of this Appendix.

Section 3.02 Notification of Rates, Amounts and Payment Dates.

(a) So long as the Holdership of the ARS is maintained in book-entry form by the Securities Depository, the Bond Trustee shall advise the Securities Depository (i) of each Record Date for the ARS at least two Business Days prior thereto and (ii) of each succeeding Interest Payment Date on each Interest Payment Date.

(b) On the Closing Date and each ARS Conversion Date, or as soon as practicable thereafter, and on the Business Day preceding each Interest Payment Date with respect to the ARS, the Bond Trustee shall advise the Securities Depository, so long as the Holdership of the ARS is maintained in book-entry form by the Securities Depository, of the amount of interest distributable in respect of each \$25,000 in principal amount of ARS for any ARS Rate Period or part thereof, calculated in accordance with Section 3.01(b) of this Appendix.

If any day scheduled to be an Interest Payment Date shall be changed after the Bond Trustee shall have given notice, the Bond Trustee shall, not later than 9:15 a.m., New York City time, on the Business Day next preceding the earlier of the new Interest Payment Date or the old Interest Payment Date, by such means as the Bond Trustee deems practicable, give notice of such change to the Auction Agent, so long as no ARS Payment Default has occurred and is continuing and the Holdership of the ARS is maintained in book-entry form by the Securities Depository.

Section 3.03 Auction Agent.

(a) The Auction Agent shall be appointed by the Bond Trustee at the written direction of the Borrower, to perform the functions specified in the Trust Agreement (including this Appendix). The Auction Agent shall signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Borrower, the Bond Trustee, the Agency, the Bond Insurer and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Borrower, the Bond Trustee, the Agency and the Bond Insurer.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the Holder of or trade in the Bonds with the same rights as if such entity were not the Auction Agent.

Section 3.04 Qualifications of Auction Agent; Resignation; Removal.

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the Trust Agreement and a member of or a participant in, the Securities Depository. The Auction Agent may resign upon written notice to the Bond Trustee, the Borrower, the Bond Insurer and the Agency on the date specified in such notice, which date shall be no earlier than 60 days after the date of delivery of such notice. Notwithstanding the foregoing, the Auction Agent may resign upon 30 days' prior written notice to the Bond Trustee, the Borrower, the Bond Insurer and the Agency if it has not received payment of any fee due in accordance with the Auction Agreement for more than 30 days. The Auction Agent may be removed at any time by the Bond Trustee if the Auction Agent is an entity other than the Bond Trustee, acting at the written direction of the (i) Borrower or (ii) the Holders of a majority of the aggregate principal amount of the Bonds by an instrument signed by the Bond Trustee and filed with the Auction Agent and the Borrower upon at least 90 days notice; provided that an agreement in substantially the form of the Auction Agreement shall be entered into with a successor Auction Agent. If the Auction Agent and the Bond Trustee are the same entity, the Auction Agent may be removed as described above, with the Borrower acting in lieu of the Bond Trustee.

Section 3.05 Broker-Dealers.

(a) The Borrower may, from time to time, appoint one or more Persons to serve as Broker-Dealers under Broker-Dealer Agreements and shall be responsible for providing such Broker-Dealer Agreements to the Bond Trustee and the Auction Agent. No such party shall constitute a Broker Dealer until a fully executed Broker Dealer Agreement is delivered to the Bond Trustee and the Auction Agent. On the Closing Date, the Auction Agent shall enter into a Broker-Dealer Agreement with Goldman, Sachs & Co.

(b) Any Broker-Dealer may be removed at any time by the Borrower by written notice, delivered to such Broker-Dealer, the Auction Agent, the Bond Trustee, the Agency and the Bond Insurer.

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APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION

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ROBINSON BRADSHAW & HINSON

November __, 2007

North Carolina Capital Facilities Finance Agency
Raleigh, North Carolina

\$50,000,000
Solid Waste Disposal Revenue Bonds
(Duke Energy Carolinas Project) [Series 2007A/Series 2007B]

Ladies and Gentlemen:

We have acted as bond counsel to the North Carolina Capital Facilities Finance Agency (the "Issuer") in connection with the referenced bonds (the "Bonds"). In such capacity, we have examined such law and such certified proceedings, certifications and other documents as we have deemed necessary to render this opinion. Terms used but not defined herein have the same meaning as defined in the form of the Bonds and the Trust Agreement hereinafter described.

The Bonds are issued pursuant to Article 2 of Chapter 159D of the North Carolina General Statutes, as amended (the "Act") and a Trust Agreement dated as of October 1, 2007 (the "Trust Agreement") between the Issuer and Deutsche Bank National Trust Company, as trustee (the "Trustee"), which assigns to the Trustee, as security for the Bonds, all right, title and interest of the Issuer in and to (a) the Loan Agreement dated as of October 1, 2007 (the "Loan Agreement"), between the Issuer and Duke Energy Carolinas, LLC, a North Carolina limited liability company (the "Borrower") (except for the Issuer's Reserved Rights as set forth in the Trust Agreement) and the related Note, (b) certain Funds, including money and investments therein, held pursuant to the Trust Agreement, and (c) all other property of any kind mortgaged, pledged or hypothecated at any time as and for additional security under the Trust Agreement (collectively, the "Trust Estate").

As to questions of fact material to our opinion, we have relied upon representations of the Issuer and the Borrower contained in various documents, certified proceedings and other certifications of public officials and others furnished to us, including certifications furnished to us by and on behalf of the Borrower, without undertaking to verify the same by independent investigation.

Attorneys at Law

101 North Tryon Street, Suite 1900, Charlotte, NC 28246

Charlotte, NC Chapel Hill, NC Rock Hill, SC

ROBINSON BRADSHAW & HINSON

November __, 2007

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Based on the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and executed by the Issuer, and are valid and binding limited obligations of the Issuer, payable solely from the Trust Estate.
2. The Trust Agreement has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable upon the Issuer. The Trust Agreement creates a valid lien on the Trust Estate.
3. The Loan Agreement has been duly authorized, executed and delivered by the Issuer and is a valid and binding obligation of the Issuer, enforceable upon the Issuer.
4. Interest on the Bonds is excludable from gross income for federal income tax purposes except for interest on any Bond for any period during which such Bond is held by a "substantial user" of the facilities financed by the Bonds or a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended, (the "Code"). However, interest on the Bonds is an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Issuer and the Borrower comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excludable from gross income for federal income tax purposes. The Issuer and the Borrower have covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
5. Interest on the Bonds is exempt from State of North Carolina income taxes.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Trust Agreement and the Loan Agreement and the obligations of the aforementioned parties thereto and the lien and security interest described above are subject to bankruptcy, insolvency, receivership, moratorium and other laws affecting creditors' rights generally, to general principles of equity (which may, without limitation, limit the specific enforcement of certain remedies) and to the exercise of judicial discretion.

We express no opinion herein (a) regarding the accuracy, adequacy or completeness of the Official Statement relating to the Bonds or (b) except as stated above, regarding federal, state or local tax consequences arising with respect to the Bonds.

ROBINSON BRADSHAW & HINSON

November __, 2007

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This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Respectfully submitted,

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APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

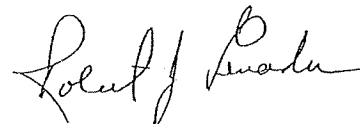
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

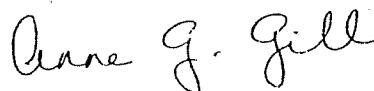
This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President





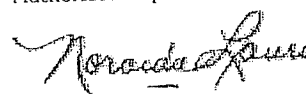
Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee

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APPENDIX F
BOOK-ENTRY SYSTEM

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Book-Entry-Only System

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for each maturity of the Series 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will

remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2007 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Agency as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Agency or the Bond Trustee on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Agency, or the Bond Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Agency or the Bond Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2007 Bonds at any time by giving reasonable notice to the Agency and the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2007 Bond certificates are required to be printed and delivered.

The Agency may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2007 Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Agency and the Borrower believe to be reliable, but the Agency and the Borrower take no responsibility for the accuracy thereof.

NEITHER THE AGENCY, THE BORROWER NOR THE BOND TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS; (3)

THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS OF THE SERIES 2007 BONDS UNDER THE TERMS OF THE TRUST AGREEMENT; (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2007 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC.

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SUPPLEMENT TO OFFICIAL STATEMENT DATED NOVEMBER 1, 2007

**\$100,000,000
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY
SOLID WASTE DISPOSAL REVENUE BONDS
(DUKE ENERGY CAROLINAS PROJECT)**

\$50,000,000 SERIES 2007A

\$50,000,000 SERIES 2007B

The Official Statement dated November 1, 2007 for the above-referenced bonds is supplemented as follows:

1. On page 20, the following paragraphs are added at the end of the section under the caption "RATINGS":

In November 2007, Fitch Ratings ("Fitch") and Moody's issued press releases concerning their analyses of the effect on financial guarantors of the ongoing deterioration in the performance of residential mortgage-backed securities ("RMBS") and collateralized debt obligations with exposure to RMBS ("ABS CDOs"). Fitch and Moody's indicated that they are re-assessing their required capital adequacy ratios for insurers in light of recent rating actions with respect to ABS CDOs, and also revising the stress tests they apply in their ratings analyses of insurers to reflect higher potential losses for those exposures. Fitch announced that it expects to complete its analysis within four to six weeks of its November 7 announcement, and Moody's stated that it expects to complete its analysis by the end of November. A possible conclusion of these analyses may be that one or more financial guarantors may no longer meet the "AAA" capital adequacy guidelines of Fitch and/or Moody's, in which case, absent raising additional capital or executing a risk mitigation strategy, one or more financial guarantors' ratings from Fitch and/or Moody's could be downgraded. Fitch stated in its announcement that based upon its preliminary review and analysis, there is a moderate probability that Ambac Assurance would experience erosion of its capital cushion under Fitch's updated stress analysis. Moody's stated in its announcement that based on its initial analysis Ambac Assurance faces a moderate risk of falling below Moody's Aaa capital adequacy benchmark under Moody's revised stress scenarios.

Further information concerning this matter may be obtained from Fitch and/or Moody's.

November 14, 2007.

**DORA D. FAZZINI
SECRETARY-TREASURER
NORTH CAROLINA CAPITAL FACILITIES FINANCE AGENCY**